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Panel on Transport

Subcommittee on Matters Relating to Railways

Meeting on 27 March 2007

**Background brief on Shatin to Central Link and
MTR Kwun Tong Line Extension**

Introduction

The Subcommittee on Matters Relating to Railways (the Subcommittee) has been following up on the planning and design of the Shatin to Central Link (SCL) project. On 11 March 2008, the Government decided that MTR Corporation Limited (MTRCL) should be asked to proceed with the further planning and design of the SCL based on the scheme jointly developed by the Kowloon-Canton Railway Corporation (KCRC) and MTRCL. MTRCL was also asked to proceed with the further planning and preliminary design of the Kwun Tong Line Extension, which will serve Homantin and Whampoa. Further details are set out in the Legislative Council Brief under File Ref : THB(T) CR 10/1016/99 issued on 11 March 2008.

2. This paper sets out the background to the implementation of SCL and MTR Kwun Tong Line Extension. It also summarizes the major concerns raised by members when related issues were discussed in the past. For further details, members may also refer to the Background Brief issued to members for the meeting on 5 January 2007 vide LC Paper No. CB(1)574/06-07.

Development of Shatin to Central Link

3. In January 2001, the Government invited the two railway corporations to submit proposals for SCL based upon a design, construct, operate and finance arrangement.

4. Having regard to the technical and financial merits of the two Conforming Proposals submitted by the two railway corporations, the Government announced the award of SCL to KCRC on 25 June 2002.

Conforming proposal from KCRC

5. KCRC's proposal in its bid submission (Conforming Proposal) basically follows the configuration of the SCL scheme in the Railway Development Strategy 2000. It comprises an extension of the Ma On Shan Rail from Tai Wai across the harbour to Central, via Diamond Hill, South East Kowloon, and Hung Hom. There are totally 10 stations, namely Tai Wai, Diamond Hill, Kai Tak, To Kwa Wan, Ma Tau Wai, Homantin, Hung Hom, Exhibition, Admiralty and Central West. A railway depot will be provided at Kai Tak.

Draft Final Proposal

6. When inviting KCRC and MTRCL to bid for the SCL project in 2001, the Government made it clear to the two corporations that subsequent to the bidding, the Government may discuss aspects of any proposed changes and thereafter a Final Proposal should be developed by incorporating those additional or revised details submitted by the successful bidder and accepted by Government, together with revised details required by Government.

7. In light of the foregoing, Government and KCRC have further considered how to refine and improve KCRC's conforming proposal. Subsequently, KCRC suggested various new proposals including adding a new station at Tsz Wan Shan, providing an automated people mover (APM) system at Whampoa, making provision for future construction of a station at Hin Keng, adding a new station at Causeway Bay North, relocating the SCL Admiralty Station to the immediate proximity of the MTR Admiralty Station, relocating the SCL Central West Station to some where near the Botanical Garden, and replacing the To Kwa Wan Station and the Ma Tau Wai Station by a single station at Ma Tau Kok.

8. KCRC has also examined the idea of extending the East Rail across the harbour to form the cross harbour section of SCL and extending the Ma On Shan Rail to Hung Hom to join the Kowloon Southern Link and the existing West Rail to Tuen Mun. Under this alternative scheme, the KCR network will provide a direct north-south railway corridor (north-south line) from the boundary to Central via the East Rail and also a direct east-west railway corridor (east-west line) from Ma On Shan to Tuen Mun via urban Kowloon. It will provide direct rail services and reduce the interchange movements at Hung Hom from a three-way interchange to a two-way interchange. KCRC concluded that this alternative scheme would produce larger transport benefits than the original scheme of directly extending the Ma On Shan Rail across the harbour.

9. In February 2004, KCRC put forward a SCL preferred proposal for consultation with the Legislative Council and the relevant District Councils. In response to the comments received, KCRC incorporated further improvements to the preferred proposal including reducing the size of the SCL depot proposed to be located at Kai Tak to accommodate the planning initiative under the Kai Tak Planning Review. Subsequently, KCRC submitted a Draft Final Proposal (DFP) to Government in September 2004.

10. In summary, the SCL scheme in the DFP put forward by KCRC comprises the east-west line and the north-south line, and 10 stations, namely Tai Wai, Diamond Hill, Kai Tak, Ma Tau Kok, Homantin, Hung Hom, Causeway Bay North, Exhibition, Admiralty and Central South as well as two APM systems.

SCL Merger Scheme

11. Alongside with the planning for SCL, the Government invited MTRCL and KCRC to discuss the rail merger in February 2004. One of the key issues for their merger discussion is the early resolution of the interchange arrangements for SCL. Subsequently, MTRCL and KCRC jointly developed a SCL scheme (Merger Scheme) to be implemented under the merger scenario and submitted a project proposal on the Merger Scheme to Government in July 2005.

12. KCRC's DFP and the Merger Scheme developed by the two railway corporations are broadly similar in terms of the railway alignment. Both schemes have adopted the proposal of extending the East Rail across the harbour to form the fourth rail harbour crossing of the SCL. Provision is also made for a future Hin Keng Station. There are certain differences between the two schemes. Under the Merger Scheme, -

- (a) fully integrated KCR/MTR interchange stations will be provided at Diamond Hill, Homantin, Exhibition and Admiralty;
- (b) it is suggested that the location of the Central South Station should be re-visited;
- (c) the Causeway Bay North Station in the DFP will be deleted in view of the possible serious disruption to traffic in Causeway Bay area arising from the construction of the station and the low cost-effectiveness of providing the station under the merger scenario;
- (d) the single Ma Tau Kok Station in the DFP will be replaced with two stations: To Kwa Wan Station and Ma Tau Wai Station with the

purpose of further enhancing the railway service in the area, despite there is insufficient transport demand for providing two stations;

- (e) the Exhibition Station in the DFP will be relocated from Harbour Road to the existing public transport interchange site in Wanchai North to better cope with the development in the area and provide better interchange with the future North Hong Kong Island Line;
- (f) it is suggested that alternative options to meet the transport demands in Tsz wan Shan area should be explored taking into account the existing public transport services and pedestrian facilities in the area; and
- (g) the Whampoa APM in the DFP will be deleted. Instead, MTRCL proposed the Kwun Tong Line Extension to be implemented as a separate MTR project.

13. In summary, the Merger Scheme comprises the east-west line and the north-south line as in the DFP and ten stations, namely Tai Wai, Diamond Hill, Kai Tak, To Kwa Wan, Ma Tau Wai, Homantin, Hung Hom, Exhibition, Admiralty and Central South.

Major views and concerns expressed by Members

14. When the Administration briefed the Subcommittee on the progress of the SCL project on 16 July 2007, members expressed the following views and concerns:

- (a) Funding arrangement – whether the Government would be required to provide funding support, either in the form of capital grant or granting property development rights, to the railway corporation for taking forward the SCL project. Views had also been expressed that as KCRC had earlier undertaken to finance the whole project itself, Government should not be required to render financial support to MTRCL for the SCL project.
- (b) Implementation of SCL – SCL should be implemented expeditiously in one go rather than in phases so as to satisfy the transport needs of the public in the territory.
- (c) Alignment of SCL – justifications for removing the proposed underground station at Tsz Wan Shan and concrete proposal for provision of railway services for residents in Whampoa and Tsz Wan Shan areas;

- (d) Proposed Diamond Hill Depot – the need for building a SCL depot at Diamond Hill in view of the availability of two depots at Kowloon Bay and Tai Wai; and the resultant impact on the environment of the surrounding area, including a heritage building in the vicinity;
- (e) Causeway Bay North Station – the Causeway Bay North Station should be retained so as to cater for the growing transport needs of passengers;
- (f) Central South Station – the Central South Station should be built in one go under the project;
- (g) Kai Tak Station – there should be pedestrian's links between the Kai Tak Station and the old Kowloon City area.

15. The Subcommittee also notes that the transport trades are concerned about the implementation of SCL on their business.

16. The Administration was requested to provide information regarding the existing capacity and usage of the depots in Kowloon Bay and Tai Wai, and the justifications for building an additional depot at Diamond Hill. The Administration was also requested to consult the relevant District Councils and local communities in planning and implementing the SCL project. Furthermore, MTRCL was requested to provide a fixed time-table for construction of the Kwun Tong Line Extension connecting the Whampoa area and revisit the need for providing a railway link to Tsz Wan Shan.

Funding arrangements for railway projects

17. At the time of MTRCL's privatization, the Government acknowledged to investors through the Initial Public Offering Prospectus that MTRCL would require an appropriate commercial rate of return, which would ordinarily be between 1% and 3% above Weighted Average Cost of Capital of MTRCL, on its investment in any new railway project.

18. For a new railway project that will benefit the public but will not be financially viable, there is a funding gap to be bridged. The Government had in the past mainly relied on granting property development rights as the means for providing financial support to bridge the funding gap for most of the railway projects. Government also agreed in July 2002 to waive its claim for \$798 million (at present value) worth of dividends otherwise payable by MTRCL to the Government as a shareholder in order to fill the funding gap identified for the implementation of the Penny's Bay Rail Link (i.e. the Disneyland Resort Line). In the case of West Island Line (WIL), due to the lack of suitable sites along or adjacent to its alignment, Government proposed to provide a capital

grant as an upfront payment to lower the capital costs of the project in order to provide the incentive for MTRCL to embark on the project which it would otherwise not undertake at all given the financial non-viability. It is estimated that the funding gap of the WIL project is about \$6 billion (January 2007 Net Present Value). The actual amount of Government funding that would be required has yet to be determined.

19. As for South Island Line (SIL), the Administration advises that the estimated capital cost of SIL (East) will exceed \$7 billion and the project is not financially viable. As funding support is necessary, the Administration will engage consultants to assess the financial details of the estimate in the detailed design stage. Further studies will also need to be conducted on the planning parameters and scope of development at the railway station and depot sites. In this respect, Government will continue to study the proposal of granting the property development rights at railway station and depot sites along SIL (East) to bridge the funding gap of the project.

20. Under the rail merger proposal, Government would have the right to determine whether the "ownership approach" (under which MTRCL would fund, construct and operate the new railway) or the "concession approach" (under which Government would fund the construction of the new railway and MTRCL would be granted a service concession to operate the new railway based on financial terms to be determined according to a pre-agreed mechanism) should be adopted for individual new railway projects which are not natural MTR-extension projects.

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