

For discussion
5 May 2007

Legislative Council Panel on Transport

**Measures to Rationalize the Utilization of Route 3
and the Non-tolled Tuen Mun Road**

PURPOSE

This paper provides background information on Route 3 and a progress report on our discussions with the franchisee on possible measures to rationalize the utilization of Route 3 and Tuen Mun Road (TMR).

BACKGROUND

2. There are currently four BOT tunnels in Hong Kong, namely, the Eastern Harbour Crossing, Western Harbour Crossing, Tate's Cairn Tunnel and Route 3 (Tai Lam Tunnel). The tunnels were constructed at different times and their operations are governed by their respective legislation. The BOT mode was adopted to encourage private sector participation and optimize the use of public resources. As the franchisee of a BOT tunnel is required to make substantial upfront capital investment, it should be given the opportunity to make a reasonable return on its investment, although the franchisee is also expected to bear the commercial risk. The toll adjustment mechanisms of the respective BOT tunnels are enshrined in the relevant legislation, and form part of the agreements between the Government and the franchisees.

3. Route 3 was commissioned in May 1998 and the franchise will expire in May 2025. Its governing legislation stipulates that the franchisee may effect anticipated toll increases on certain specified dates. However, if the franchisee's actual net revenue in any year falls short of the minimum estimated net revenue specified in the legislation for that year, the franchisee may advance an anticipated toll increase or introduce an additional toll increase if all the anticipated toll increases have been effected. The statutory toll levels of Route 3 were last revised in September 2006 but the actual toll levels have remained unchanged since June 2005 as Route 3 has continued to offer concessionary tolls to all categories of vehicles.

4. The daily traffic throughput of Route 3 was around 29,400 vehicles in 1998. Traffic flow increased and remained rather stable from 2000 to 2004 in the region of around 44,000 to 45,000 vehicles. There has been some improvement in the past couple of years and the number of vehicles in 2006 increased to 47,500, against the design capacity of 118,000 vehicles. To enhance access to as well as utilization of Route 3, the Government has erected a number of directional signs along the approach roads to guide motorists towards Tai Lam Tunnel. In parallel, the tunnel company has been undertaking a number of marketing and promotional measures to boost the traffic flow. These measures include special tolls to different types of vehicles at prescribed periods, a corporate incentive scheme, coupons for use on Sundays and public holidays and joint promotions with other organizations.

DISCUSSIONS WITH ROUTE 3

5. We have been in discussions with the franchisee of Route 3 about possible ways to achieve a more balanced traffic distribution between Route 3 and the alternative, non-tolled TMR. One idea being actively explored is extension of its franchise in exchange for toll reduction. However, there are major differences in some of the fundamental parameters and assumptions held by the two sides concerning, for example, traffic and financial projections. While considerable efforts have been made to narrow the differences, no agreement has been reached. Nevertheless, we maintain an open mind and have been trying to maintain a constructive dialogue with the tunnel company.

6. Recently, a Member of this Panel suggested exploring the option of a pilot scheme on toll reduction for a shorter duration of, say, three years. This option may provide more realistic traffic and financial data to help reach an agreement on a longer term solution. The Administration has put the proposal to the franchisee and will examine its feasibility in parallel with the other options with the franchisee. We hope this new approach would add impetus to the discussions and bring about a win-win situation for both sides by achieving the traffic management objective and meeting the cost-effectiveness test for public money spent and at the same time make commercial sense to the franchisee of Route 3.

ADVICE SOUGHT

7. Members are invited to note the latest progress on our discussions with the franchisee of Route 3 on possible measures to rationalize the utilization of Route 3 and TMR as set out in this paper.

Environment, Transport and Works Bureau
May 2007