

For Discussion
15 December 2009

LEGISLATIVE COUNCIL PANEL ON TRANSPORT

Application for Toll Increase
by Tate's Cairn Tunnel Company Limited

PURPOSE

Tate's Cairn Tunnel Company Limited (TCTC) has applied for an increase in tolls. This paper seeks Members' views on the application.

BACKGROUND

2. TCTC was granted a franchise under the Tate's Cairn Tunnel Ordinance (Cap. 393) (the Ordinance) to build and operate the Tate's Cairn Tunnel for 30 years starting from July 1988, inclusive of the construction period. The tunnel was opened to traffic in June 1991. TCTC's franchise will expire in July 2018.

3. Section 36(3) of the Ordinance provides that the tolls specified in the Schedule to the Ordinance may be varied by agreement between the Chief Executive-in-Council and the tunnel company. If an agreement cannot be reached, either party may resort to arbitration. The Ordinance has not set out the criteria for determining toll adjustments. It only stipulates that if the matter is submitted for arbitration, the Arbitrator shall be guided by the need to ensure that the company is reasonably but not excessively remunerated for its obligations under the Ordinance.

TCTC'S APPLICATION FOR TOLL INCREASE

4. So far, Tate's Cairn Tunnel has had five toll increases which came into effect in May 1995, November 1996, January 2000, August 2005 and November 2008 respectively. TCTC applied for its sixth toll increase in July 2009 for an increase of \$1 for each vehicle category.

5. The existing tolls and new tolls proposed by TCTC are as follows –

	Motor-cycles	Private car & taxi	Light bus and light goods vehicle	Medium and heavy goods vehicle	Single-decker bus	Double-decker bus	Extra axle
Existing Tolls	\$11	\$14	\$21	\$25	\$28	\$31	\$18
Proposed Tolls	\$12	\$15	\$22	\$26	\$29	\$32	\$19
Increase %	9%	7%	5%	4%	4%	3%	6%

TCTC'S FINANCIAL POSITION

6. By the end of June 2008, TCTC had accumulated profit of \$103 million, representing a shortfall of \$2,633 million as compared with the expected cumulative profit of \$2,736 million in the company's base case projection when bidding for the franchise. The difference between the actual profit/losses of TCTC and base case projections over the years is set out below –

Profit & Loss (in \$million)			
Year¹	Base Case Projection (A)	Actual Profit/Losses (B)	Difference (B-A)
1991/92	(149)	(176)	(26)
1992/93	(148)	(159)	(11)
1993/94	(147)	(147)	0
1994/95	(69)	(143)	(74)
1995/96	(56)	(94)	(38)
1996/97	41	(71)	(112)
1997/98	66	(43)	(109)
1998/99	88	(41)	(129)
1999/2000	194	(10)	(204)
2000/01	212	18	(194)
2001/02	265	92	(173)
2002/03	356	103	(253)
Deferred tax adjustment²	-	120	120
2003/04	371	97	(273)
2004/05	372	112	(260)
2005/06	448	141	(307)
2006/07	447	146	(301)
2007/08	446	157	(290)
Cumulative	2,736	103	(2,633)

¹ TCTC's financial year is from 1 July to 30 June of the following year.

² The deferred tax adjustment was a result of the adoption of a revised accounting standard.

7. TCTC started to make an operating profit in 2000/01. It repaid its bank loan in October 2004 and shareholders' loan in 2004/05 after repayment of the bank loan. It also wiped off the accumulated loss by 2007/08, with an accumulated profit of \$103 million at the end of the year. TCTC started to pay dividends in 2008/09.

8. TCTC attributes the lower-than-expected toll revenue to the following –

- (a) increasing toll disparity between the Lion Rock Tunnel (LRT) and TCT (According to TCTC, one of the key assumptions in planning the franchise bid in 1988 was that the tolls for LRT would be increased broadly in line with inflation. This scenario has not materialised);
- (b) relocation of the airport;
- (c) diversion effect due to an increase in transportation modes and road choices, for instance, the opening of Route 3 (Tai Lam Tunnel), Ma On Shan Railway and Route 8; and
- (d) migration of industrial/manufacturing activities to the Mainland.

CONSIDERATIONS

(A) Guiding Principle – Reasonable but not Excessive Remuneration

9. On the basis of the Base Toll Proposal which accompanied its franchise bid, TCTC expected that it would achieve an Internal Rate of Return (IRR) of 13.02% over the 30-year franchise period. In considering TCTC's franchise bid in 1988, the Government agreed to the initial tolls but gave no undertaking in respect of subsequent toll adjustments. Neither was there any agreement on a guaranteed rate of return.

10. TCTC's target IRR is the lowest among the four Build-Operate-Transfer tunnels in Hong Kong. Route 3 (Country Park Section) aims at a target IRR of 15.18%, while the targets for the Eastern Harbour Crossing and the Western Harbour Crossing were both 16.5%. TCTC projects that it will be able to achieve an IRR of 6.1% over the 30-year franchise period should the current toll increase application is approved. If no toll increase is to be made before the end of the franchise, TCTC will only achieve an IRR of 6.0%.

(B) Traffic Implications

11. Currently, Tate's Cairn Tunnel has an average daily throughput of 54,300 vehicles³, against its design capacity of 78,500 vehicles. TCTC has estimated that with its proposed toll increase, about 500 vehicles will be diverted to LRT and 100 vehicles would be diverted to Tai Po Road (TPR) and Route 8 between Cheung Sha Wan and Shatin respectively per day.

(C) Public Affordability and Acceptability

12. TCTC's proposed toll increases for each vehicle type is \$1. The percentage increase ranges from 3% to 9%, with a weighted average toll increase of 5.9%. For 97% of the vehicles, the proposed increase will be between 3% and 7%.

(D) Arbitration

13. As mentioned in paragraph 3 above, if an agreement on the toll increase cannot be reached between the Government and TCTC, either party may resort to arbitration under the Arbitration Ordinance. Therefore TCTC has the right to resort to arbitration if its application for the toll increase is rejected by the Executive Council.

³ Based on 2008 traffic statistics.

ADVICE SOUGHT

14. Members' views are invited on the toll increase application submitted by TCTC.

**Transport and Housing Bureau
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