

TATE'S CAIRN TUNNEL COMPANY LIMITED

TOLL INCREASE APPLICATION

Briefing Paper for Legislative Council Panel on Transport

Justification for Toll Rise

Tate's Cairn Tunnel (TCT) franchise was awarded on a "Build, Operate Transfer" (BOT) basis to attract investment from private sector for building infrastructure project in Hong Kong. About \$2 billion was invested to build the TCT. The TCT Ordinance has stated that a "reasonable but not excessive return" should result from this investment.

As at the end of June 2008 (i.e. after a period of 20 years since the start of the 30-year franchise in 1988), Tate's Cairn Tunnel Company Limited ("TCTC") has accumulated profit of \$103 million, lagging far behind the Base Toll Proposal in which an accumulated profit of \$2,736 million had been projected with the expected IRR of 13.02%. The deviation resulted from shortfalls in revenue was due to reasons beyond the Company's control.

TCTC has eliminated its loss in its 20th year. Note that another comparable project, the Eastern Harbour Tunnel, eliminated its loss in its 7th year.

Tolls constitute TCTC’s core income and account for about 95% (2007/08) of TCTC’s total revenue. The proposed toll increase as set out below is expected to generate additional revenue eventually to achieve a reasonable investment return.

Vehicle category	Current toll	Proposed toll	Increase amount
Motorcycle	\$11	\$12	\$1
Private car & taxi	\$14	\$15	\$1
Light bus & light goods vehicle	\$21	\$22	\$1
Medium & heavy goods vehicle	\$25	\$26	\$1
Single-decker bus	\$28	\$29	\$1
Double-decker bus	\$31	\$32	\$1
Extra axle	\$18	\$19	\$1

Under the pressure of the accumulated shortfall in traffic revenue, much effort has been put into cost control. TCTC has reduced its operating costs (excluding rates and royalty paid to the Government) in every year over the past eleven years; from about \$86 million in 1996/97 to about \$64 million in 2007/08. Even though TCT is the longest road tunnel in Hong Kong, TCTC’s operating costs compare very favourably with other BOT tunnels. These cost reductions are not achieved through employee redundancy programs or by lowering service standards.

Traffic Implications

According to the latest forecasts, the toll increase currently proposed by TCTC would cause only slight traffic diversion to Lion Rock Tunnel (about 500 vehicles daily), Tai Po Road (about 100 vehicles daily) and Route 8 (about 100 vehicles daily). Hence, there would not be significant traffic impact resulting from TCTC’s currently proposed toll increase.

Service Performance

From TCTC’s annual survey of customers’ opinions, it is noted that customers’ overall satisfaction rating has been maintained at a high level in recent years:

<u>Year</u>	<u>Satisfaction Rating</u>
2003	92%
2004	95%
2005	96%
2006	96%
2007	98%
2008	97%
2009	97%

Over recent years, TCTC has undertaken many initiatives to ensure smoother and safer traffic and higher reliability of service. Recent examples are:

- upgrading the autotoll toll system;
- relaying all the road marking inside tunnel; and
- replacement of maintenance vehicles.

TCTC plans to invest more than \$40 million capital expenditure in the remaining 9 years to maintain various facilities and improve our services, such as upgrading the fire service installation, maintaining of interior tunnel wall and replacement of recovery vehicles.

Prepared by:

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