

LEGCO PANEL ON TRANSPORT

TATE'S CAIRN TUNNEL COMPANY APPLICATION FOR TOLL INCREASE

PURPOSE

The Tate's Cairn Tunnel Company Limited (TCTC) has applied for an increase in toll. This paper informs Members of the assessment of the administration and the considerations behind supporting the application.

2. A background information paper prepared by TCTC is at Annex A.

ADMINISTRATION'S CONSIDERATION OF THE APPLICATION

3. In considering TCTC's application for toll increase which is the second application under its 30-year franchise (the first one came into effect on 1 May 1995), the administration is guided by the need to ensure that TCTC will be able to carry out its obligations or exercise its rights under the Tate's Cairn Tunnel Ordinance and it will be reasonably but not excessively remunerated. Regard is also had to any material change in the circumstances affecting the company of its obligations and its rights under the franchise and other relevant matters.

4. In submitting their bid in 1987/88, TCTC had included in their proposal a schedule indicating the timing and the proposed increases. The Administration agreed to the opening tolls but gave no undertaking in respect of the subsequent increases. The current application from TCTC for private cars, light buses and light goods vehicles, being \$8 and \$14, are in line with the original proposals. That for medium and heavy goods vehicles, being \$20, is higher than the original proposal but this is offset to a certain extent by the lower charge for each axle being proposed at \$7. The timing of the current increase is also in line with that in the bid proposal. The existing and proposed tolls and the toll schedule in the bid proposal are set out below.

The proposed toll schedule set out in
TCTC's Revised Final Proposal in 1988

Vehicles	<u>Toll effective from</u>					
	1.7.91	1.7.94	1.7.96	1.7.99	1.7.02	1.7.05
Private cars, taxis, motorcycles	\$4	\$6	\$8	\$10	\$13	\$15
Light buses & LGVs	\$7	\$10	\$14	\$17	\$23	\$26
MGVs, HGVs & buses	\$8	\$12	\$16	\$20	\$26	\$30
Extra axle	\$5	\$8	\$10	\$13	\$16	\$20

<u>Vehicles</u>	<u>The existing and proposed tolls</u>		
	<u>Existing Toll</u>	<u>Proposed Toll</u>	<u>Percentage Increase</u>
Private cars, taxis & motorcycles	\$6	\$8	33%
Light buses and light goods vehicles (LGVs)	\$10	\$14	40%
Medium & heavy goods vehicles (MGVs, HGVs) and buses	\$15	\$20	33%
Extra axle	\$5	\$7	40%

5. As to the question of whether the current proposed increase would be excessively remunerative to TCTC, TCTC's current forecast shows that with the proposed toll revision it will be able to achieve an internal rate of return (IRR) of 13.04% over the franchise period. This is very close to that of 13.02% projected in the bid proposal. This is most modest compared with the IRRs for other Build, Operate and Transfer (BOT) franchises, namely, Western Harbour Crossing (16.5%), Eastern Harbour Crossing (16.5%) and Route 3 (Country Park Section) (15.18%).

6. In the meantime, however, TCTC would be in a critical financial position. The accumulated loss of TCTC at the beginning of the 1994/95 stood at \$624 million, which is \$111 million more than the level anticipated in their bid proposal. The projected accumulated loss as at the end of 1995/96 will be \$722 million, or \$153 million more than the original estimates. TCTC attributes the lower than expected financial returns to the following factors beyond its control :

(a) Competing routes diverting traffic away from the tunnel

The early completion of the improvement of Tai Po Road and the flat toll structure of the Lion Rock Tunnel (i.e., \$6 for all classes of vehicles) have diverted traffic from the Tate's Cairn Tunnel (TCT).

(b) Usage by goods vehicles lower than projections

Although the total volume of traffic through TCT is not far from that projected in the bid proposal, the number of goods vehicles using the tunnel, averaging 20,500 daily, is lower than the Company's original projection of 31,600 daily. The reasons are probably the lower toll at the Lion Rock Tunnel, the lower than anticipated job opportunities in the Northeast New Territories, and the relocation of industries, in particular those in East Kowloon and Eastern Hong Kong, to China which has reduced the demand for local goods vehicle trips.

(c) Change in goods vehicle classification

When TCT was opened to traffic in 1991, the classification of goods vehicles was :

LGV	less than 5.5 tonnes
MGV	5.5 tonnes to less than 24 tonnes
HGV	24 tonnes to less than 38 tonnes

The classification was changed in September 1992 to bring it into conformity with the Road Traffic Ordinance :

LGV	up to and including 5.5 tonnes
MGV	greater than 5.5 tonnes but less than or equal to 24 tonnes
HGV	greater than 24 tonnes but less than 38 tonnes

Since the toll is related to the classification of vehicles, the re-classification has reduced revenue.

(d) Higher operating costs

In its franchise bid, TCTC forecast a total operating cost of HK\$287.5 million for the first five years of its operation, based on a predicted inflation of 6% per annum. The actual inflation turned out to be much higher, ranging from 7.3% to 10.5%. If inflation is discounted, the actual operating costs were lower than originally projected.

(e) Delay in the last toll increase

The first toll increase was granted in May 1995, while the original franchise bid anticipated an increase in July 1994.

7. Because of these factors, even with the second toll increase, the company will not be able to distribute dividend to its shareholders until the 12th year (2001/02) of its operation, which would be six years later than their original projection. The second toll increase will only enable TCTC to generate sufficient cash flow to cover the expenses in the coming year including loan repayment and interest charges under the loan agreement.

8. The Administration has examined the option of a lower rate of increase by only \$1 to \$7 for private cars and similar rate of increase in tolls for other categories of vehicles. The result is that the revenue would not generate sufficient cash flow for the company to cover its expenses in the coming year.

OTHER POINTS TO NOTE

Royalty

9. The Administration has examined the possibility of waiving or deferring payment of royalty to help TCTC ease its tight financial position at present. However, Section 9 of the Tate's Cairn Tunnel Ordinance stipulates a requirement on TCTC to pay royalty to the Government within 60 days of the end of each 6 months period for which royalty is payable.

Measures to Increase Traffic and Revenue

10. When the Transport Advisory Committee (TAC) considered the toll increase proposal from TCTC, they suggested the idea of differential toll structure for peak and non-peak periods with a view to attracting more users and divert traffic from other routes during non-peak hours. TCTC tested various scenarios covering different concessionary toll rates for varying periods of off-peak hours. The results indicated that the revenue to be generated would be even lower because the additional traffic volume generated was insufficient to make up for the reduction in income caused by lower tolls during non-peak hours. TCTC will, however, continue to explore other options.

11. TCTC adopts the 'tidal flow' arrangement as and when it is necessary. In the evening peak hours, TCTC uses three lanes for northbound

and one lane for southbound traffic. This is feasible because the peak southbound traffic can be handled by one southbound lane. However, it is not feasible to introduce tidal flow during morning peak hours with three lanes for southbound and one lane for northbound traffic. The northbound traffic exceeds the one lane capacity resulting in traffic queue/congestion in Wong Tai Sin area.

Non-toll Revenue

12. TCTC has also been actively pursuing additional revenue from non-traffic sources namely advertising, consultancy work and rental for the use of mobile phone facilities. The total non traffic revenue for the year 1995/6 was \$10.7 million, representing 5% of the Company's revenue and an increase of \$3.4 million or 46.6% over the previous year. During the first five years of operation, advertising and other income amounted to over HK\$29 million. TCTC will continue to explore further opportunities in these sources and has applied for more advertising sites within the tunnel area.

Operating Costs

13. Although compared with the other BOT tunnels (Cross Harbour Tunnel and Eastern Harbour Crossing), TCTC has the lowest operating cost per kilometre of tunnel, it has undertaken to review its overall operating costs and explore the possibility of cost saving measures such as optimizing toll collection costs and studying the cost effectiveness of some of its maintenance works.

Air Quality inside Tunnel

14. At present, there is stipulation in the Tate's Cairn Tunnel Regulations that the concentration of carbon monoxide inside the tunnel does not exceed 150 parts per million by volume. TCTC has been complying with this requirement and the concentration of carbon monoxide inside the tunnel is way below the prescribed level.

15. TCTC has tried to improve the situation by switching on additional fans during rush hours. The trial results showed that there was a slight decrease in the carbon monoxide concentration during the rush hours. As such, additional measures would be required to alleviate the problem. The company has recently appointed a Consultant to conduct a study and recommend measures to improve the air quality in the tunnel.

Transport Advisory Committee

16. When the Transport Advisory Committee gave support to the proposed toll increase (subject to a lower increase for light buses and light goods vehicles to \$13, instead of \$14 as TCTC proposed), they asked the Company to draw up strategic plans to improve its financial position, explore avenues to generate more income, reduce its expenditure and improve services including air quality.

PRESENTATION BY TCTC

17. Representatives from TCTC will attend the meeting to do a presentation.

Transport Branch
TBCR 1/4651/94
21 September 1996