

## **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 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.

In contrast to the expected IRR of 13%, Tate's Cairn Tunnel Company Limited (TCTC) has accumulated loss of \$453 million as at the end of June 2004 (i.e. after a period of 16 years since the start of the 30-year franchise). The deviation resulted from shortfalls in revenue due to reasons beyond the Company's control. This loss position lags far behind the Base Toll Proposal which forecasts elimination of accumulated loss in the 13th year. Another comparable tunnel project, the Eastern Harbour Tunnel, eliminated its loss in its 7th year.

TCTC has explored whether there are feasible options other than a toll increase to raise its revenue. In 2003/04, TCTC experimented with various promotional programs but the results showed that the incremental toll revenue generated by the increased traffic volume failed to compensate the discount given out.

Tolls constitute TCTC's core income and currently account for about 97% of TCTC's total revenue. The proposed toll increase as set out below is expected to generate additional revenue of about \$37 million a year to expedite elimination of TCTC's accumulated loss and eventually to achieve investment return.

Vehicle category	Current toll	Proposed toll	Base Toll Proposal	Variance
Motorcycle	\$10	\$10	\$13	-\$3
Private car & taxi	\$10	\$12	\$13	-\$1
Light bus & light goods vehicle	\$17	\$18	\$23	-\$5
Medium & heavy goods vehicle	\$20	\$23	\$26	-\$3
Single-decker bus	\$20	\$24	\$26	-\$2
Double-decker bus	\$20	\$26	\$26	\$0
Extra axle	\$13	\$15	\$16	-\$1
Effective date			Jul 2002	so far almost 3 years' delay

Under the pressure of the accumulated loss mentioned above, 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 seven years; from about \$86 million in 1996/97 to about \$70 million in 2003/04. 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 forecasts prepared by TCTC's traffic consultant, the moderate toll increase currently proposed by TCTC would cause only slight traffic diversion to Lion Rock Tunnel (about 940 vehicles daily or +1%) and Tai Po Road (about 260 vehicles daily or +0.8%). Hence, there would not be significant traffic impact resulting from TCTC's currently proposed toll increase.

**Service Performance**

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

- adding and relocating autotoll lanes for the convenience of an increasing number of autotoll users;
- improving the level of lighting inside the tunnel tubes; and
- replacement of uninterruptable power supply system.

Having spent \$64 million in capital expenditure in the past 7 years, TCTC plans to invest more than \$56 million capital expenditure in the next 7 years to maintain various facilities and improve our services, such as upgrading our fleet of recovery vehicles and renovating the interior walls of our tunnel.

From TCTC’s annual survey of customers’ opinions, it is noted that customers’ overall satisfaction level has been improving steadily:

Year	2002	90%	satisfaction rating
	2003	92%	
	2004	95%	

Prepared by:

Tate’s Cairn Tunnel Company Limited  
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