

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 13.02%, Tate's Cairn Tunnel Company Limited (TCTC) has accumulated loss of \$53 million as at the end of June 2007 (i.e. after a period of 19 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.

Tolls constitute TCTC’s core income and account for about 96% (2006/07) 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	Base Toll Proposal	Variance
Motorcycle	\$10	\$12	\$15	-\$3
Private car & taxi	\$12	\$15	\$15	\$0
Light bus & light goods vehicle	\$18	\$23	\$26	-\$3
Medium & heavy goods vehicle	\$23	\$26	\$30	-\$4
Single-decker bus	\$24	\$30	\$30	\$0
Double-decker bus	\$26	\$33	\$30	+\$3
Extra axle	\$15	\$19	\$20	-\$1
Effective date			1 Jul 2005	so far almost 3 years delay

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 ten years; from about \$86 million in 1996/97 to about \$64 million in 2006/07. 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 toll increase currently proposed by TCTC would cause only slight traffic diversion to Lion Rock Tunnel (about 1,300 vehicles daily) and Tai Po Road (about 400 vehicles daily). 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 and higher reliability of service. Recent examples are:

- upgrading the Traffic Control & Surveillance System;
- adding traffic signs and implementing new lane configuration on the one-tube-two-way traffic arrangement;
- renovation of the interior walls and emergency exits of our tunnel; and
- replacement of heavy recovery vehicle and tunnel washer.

TCTC plans to invest \$44 million capital expenditure in the next 7 years to maintain various facilities and improve our services, such as road marking renovation, upgrading our manual toll & autotoll system and fire service installation.

From TCTC’s annual survey of customers’ opinions, it is noted that customers’ overall satisfaction level has been improving steadily to a record high in year 2007:

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

Prepared by:

Tate’s Cairn Tunnel Company Limited
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