

LEGISLATIVE COUNCIL PANEL ON TRANSPORT

Western Harbour Crossing Tolls

Introduction

This note informs members that the new statutory tolls of the Western Harbour Crossing (WHC) will be effected on 31 July 2010. The revised concessionary tolls of the tunnel will also take effect on 1 August 2010.

Background

2. The Western Harbour Crossing Ordinance (Cap. 436) provides for a specified toll adjustment mechanism in respect of WHC, under which the franchisee may effect anticipated toll increases on six specified dates (1 January on 2001, 2005, 2009, 2013, 2017 and 2021). However, if the franchisee's actual net revenue in any year falls short of the minimum estimated net revenue for that year specified in Schedule 5 to Cap. 436, the franchisee may advance an anticipated toll increase or create an additional toll increase if all the anticipated toll increases have been effected. The maximum levels of increase in respect of different categories of vehicles are specified in Schedule 2 to Cap. 436.

3. Since the commissioning of WHC in 1997, the franchisee's net revenue has consistently fallen short of the specified levels. The last statutory toll increase of WHC was made on the basis of its 2005/06 Net Revenue Statement (NRS) and took effect on 31 July 2009.

4. The franchisee of WHC offers concessions to all categories of vehicles so that the concessionary tolls are lower than the statutory levels. The franchisee last revised the concessionary tolls on 6 January 2008. A summary of the historical changes in WHC's toll levels is at **Annex A**.

Present Position

5. In June this year, the franchisee informed the Government that based on its 2006/07 NRS, it would exercise the right to statutory toll increases to give effect to the new statutory toll levels on 31 July 2010. The NRS shows that the franchisee's net revenue for 2006/07 was \$658

million and lower than the minimum net revenue of \$1,549 million for that year specified in Schedule 5 to Cap. 436. The franchisee is therefore entitled to an additional toll increase. We have carefully examined the NRS in accordance with the requirement under the toll adjustment mechanism.

6. The franchisee has recently informed the Government that it will also give effect to new concessionary tolls on 1 August 2010. The statutory and concessionary toll levels of the WHC to be implemented are at **Annex B**.

7. The franchisee's statutory toll increase complies with the relevant provisions under Cap. 436. It may also decide on the magnitude of toll concessions it offers to tunnel users. The Government will continue to urge the franchisee to have due regard to market reaction, public affordability and acceptability in devising its toll strategy, postpone toll adjustments and moderate the magnitude when adjusting tolls as far as possible.

Transport and Housing Bureau
July 2010

Historical Toll Levels of WHC

	30 April 1997		3 December 2000		31 July 2002		16 February 2003		24 February 2004		4 July 2004	
	Statutory	Actual	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary
Motorcycles	\$ 15	\$ 15	\$ 20	\$ 20	\$ 25	\$ 20	\$ 25	\$ 20	\$ 30	\$ 20	\$ 30	\$ 22
Private cars	\$ 30	\$ 30	\$ 40	\$ 35	\$ 50	\$ 35	\$ 50	\$ 37	\$ 60	\$ 37	\$ 60	\$ 40
Taxis	\$ 30	\$ 30	\$ 40	\$ 35	\$ 50	\$ 35	\$ 50	\$ 35	\$ 60	\$ 35	\$ 60	\$ 35
Light buses	\$ 40	\$ 40	\$ 50	\$ 45	\$ 60	\$ 45	\$ 60	\$ 47	\$ 70	\$ 47	\$ 70	\$ 50
Light goods vehicles	\$ 45	\$ 45	\$ 60	\$ 50	\$ 75	\$ 50	\$ 75	\$ 50	\$ 90	\$ 50	\$ 90	\$ 55
Medium goods vehicles	\$ 65	\$ 65	\$ 85	\$ 70	\$ 105	\$ 70	\$ 105	\$ 70	\$ 125	\$ 70	\$ 125	\$ 80
Heavy goods vehicles	\$ 95	\$ 95	\$ 125	\$ 100	\$ 155	\$ 100	\$ 155	\$ 100	\$ 185	\$ 100	\$ 185	\$ 110
Single-decked buses	\$ 40	\$ 40	\$ 50	\$ 50	\$ 60	\$ 50	\$ 60	\$ 60	\$ 70	\$ 60	\$ 70	\$ 70
Double-decked buses	\$ 55	\$ 55	\$ 70	\$ 70	\$ 85	\$ 70	\$ 85	\$ 85	\$ 100	\$ 85	\$ 100	\$ 100
Additional axle for goods vehicles	\$ 30	\$ 30	\$ 40	\$ 30	\$ 50	\$ 30	\$ 50	\$ 30	\$ 60	\$ 30	\$ 60	\$ 30

Historical Toll Levels of WHC

	31 July 2005		31 July 2006		31 July 2007		6 January 2008		31 July 2008		31 July 2009	
	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary
Motorcycles	\$35	\$22	\$40	\$22	\$45	\$22	\$45	\$22	\$50	\$22	\$55	\$22
Private cars	\$70	\$40	\$80	\$40	\$90	\$40	\$90	\$45	\$100	\$45	\$110	\$45
Taxis	\$70	\$35	\$80	\$35	\$90	\$35	\$90	\$40	\$100	\$40	\$110	\$40
Light buses	\$80	\$50	\$90	\$50	\$100	\$50	\$100	\$55	\$110	\$55	\$120	\$55
Light goods vehicles	\$105	\$55	\$120	\$55	\$135	\$55	\$135	\$55	\$150	\$55	\$165	\$55
Medium goods vehicles	\$145	\$80	\$165	\$80	\$185	\$80	\$185	\$80	\$205	\$80	\$225	\$80
Heavy goods vehicles	\$215	\$110	\$245	\$110	\$275	\$110	\$275	\$110	\$305	\$110	\$335	\$110
Single-decked buses	\$80	\$70	\$90	\$70	\$100	\$70	\$100	\$80	\$110	\$80	\$120	\$80
Double-decked buses	\$115	\$100	\$130	\$100	\$145	\$100	\$145	\$115	\$160	\$115	\$175	\$115
Additional axle for goods vehicles	\$70	\$30	\$80	\$30	\$90	\$30	\$90	\$30	\$100	\$30	\$110	\$30

Annex B**Existing and New Tolls of WHC**

	Existing Tolls		New Tolls*		Actual Increase
	Statutory	Concessionary	Statutory	Concessionary	
Motorcycles	\$55	\$22	\$60	\$23	\$1
Private cars	\$110	\$45	\$120	\$50	\$5
Taxis	\$110	\$40	\$120	\$45	\$5
Light buses	\$120	\$55	\$130	\$60	\$5
Light goods vehicles	\$165	\$55	\$180	\$60	\$5
Medium goods vehicles	\$225	\$80	\$245	\$85	\$5
Heavy goods vehicles	\$335	\$110	\$365	\$115	\$5
Single-decked buses	\$120	\$80	\$130	\$90	\$10
Double-decked buses	\$175	\$115	\$190	\$128	\$13
Additional Axle for goods vehicles	\$110	\$30	\$120	\$30	\$0

* New statutory tolls will take effect from 31 July 2010;
new concessionary tolls will take effect from 1 August 2010.



Western Harbour Tunnel Company Limited
香港西區隧道有限公司

Company's Background Brief

The Western Harbour Tunnel was built at a cost of HK\$7.0 billion and opened for business on 30 April 1997 some three months ahead of schedule. Its construction and operation is governed by the WHC Ordinance of 1993.

1.0 BACKGROUND INFORMATION FOR ADJUSTMENT FOR CONCESSIONARY TOLL

1.1 Net Revenue

WHC's Net Revenues are far below the Minimum Net Revenue stipulated in the Ordinance. Please see the summary below:

Actual Net Revenue

\$m	Y/E Jul-98	Y/E Jul-99	Y/E Jul-00	Y/E Jul-01	Y/E Jul-02	Y/E Jul-03	Y/E Jul-04	Y/E Jul-05	Y/E Jul-06	Y/E Jul-07	Y/E Jul-08	Y/E Jul-09	Cum- ulative
Minimum Net Revenue in the Ordinance	154	201	253	506	713	794	880	1,190	1,455	1,549	1,623	1,876	11,194
Actual Net Revenue/ (Loss)	(208)	(52)	59	172	299	325	400	492	567	658	760	788	4,260
Shortfall	362	253	194	334	414	469	480	698	888	891	863	1,088	6,934

Projected Net Revenue

\$m	Y/E Jul-10	Y/E Jul-11	Y/E Jul-12	Y/E Jul-13	Y/E Jul-14	Projected from Y/E Jul-1998 to Jul-2014 (cumulative)
Minimum Net Revenue in the Ordinance	2,028	1,892	1,821	2,212	2,573	21,720
Projected Actual Net Revenue	841*	854	928	1,116	1,294	9,293
Projected Shortfall	1,187	1,038	893	1,096	1,279	12,427

* with actuals upto April 2010.

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1.1 Net Revenue (continued)

Under the WHC Ordinance which has been thoroughly discussed and agreed by Legco in 1993:

- the Company is entitled to request the Government to gazette a toll increase should the actual Net Revenue generated be less than the Minimum Estimated Net Revenue;
- if the actual Net Revenue earned is greater than the Upper Estimated Net Revenue but less than the Maximum Estimated Net Revenue, the Company is entitled to the Upper Estimated Net Revenue plus 50% of the excess and the balance, another 50% excess will go to the Toll Stability Fund to cover future shortfall and defer future toll increase; and
- if the actual Net Revenue earned is greater than the Maximum Estimated Net Revenue, the Company is entitled to the Upper Estimated Net Revenue plus 50% of the excess between Upper Estimated Net Revenue and Maximum Estimated Net Revenue and all surplus will go to the Toll Stability Fund to cover future shortfall and defer future toll increase.

1.2 Traffic Volume

The main reason for the shortfall in net revenue is that actual traffic volume has been much less than forecast due to:

- i) poor access roads such as the congestion of WHC's ingress and egress (Central and Tsim Sha Tsui);
- ii) economic downturn;
- iii) other cross harbour tunnels at lower toll strategy; and
- iv) the development of rail network.

The WHC has been proactive in taking action to make the WHC more attractive to motorists:

- a) The management has examined impediments to free traffic flow leading to the WHC and made a number of suggestions to the Transport and Housing Bureau and Transport Department for improvements to roads and road signs. The Bureau and Department have been very helpful in implementing road improvements and scheduling many others for future implementation. New road signs have also been installed.
- b) Carefully targeted promotions have been made, for instance. Current promotions are:
 - Current Mid-night Empty Taxi Toll Promotion (\$5 toll)
To encourage empty taxis to use WHC, we have improved our mid-night empty taxi promotion (during mid-night 00:00 to 07:00 a.m.) by charging \$10 cash and rewarding the drivers with a rebate of \$5 prepaid tunnel ticket. We are therefore only charging \$5, which is equivalent to 50% of CHT's toll.

The \$5 prepaid tunnel ticket may induce traffic to divert to the WHC during day time. Hence helping to relieve the congestion at CHT.

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1.2 Traffic Volume (continued)

▪ Mid-night Goods Vehicle Toll Promotion

Toll for goods vehicle during the promotion has been reduced to CHT's toll level to encourage using WHC and will be extended to midnight 00:00 to 07:00 a.m. with effect from 1 August 2010; i.e.

Light Goods Vehicles	-	reduced to \$15
Medium Goods Vehicles	-	reduced to \$20
Heavy Goods Vehicles	-	reduced to \$30
Extra axles	-	reduced to \$10

Promotions implemented in the previous years were:

- Free drive day on 4 May 1997;
- Buy 10 tunnel tickets and get 2 free;
- 50% reduction in toll for goods vehicles;
- Route education programme;
- Fuel coupon (a \$30 fuel coupon given);
- Joint Promotion on Private Cars Autotoll Incremental Traffic;
- Free ride for designated Private Cars during on Sundays;
- 50% toll discount for designated Private Cars and Motorcycles;
- Autotoll Private Cars free return trip on Sundays and Public Holidays and etc.

However, most of these toll promotion result only in minor increase in traffic but have caused substantial losses in revenue. i.e. increase in traffic flow is not sufficient to pay off the reduced toll level.

1.3 Loans Outstanding

The development cost of Western Harbour Crossing is \$7 billion. As at Dec 2009, the Company still has \$2.6 billion loan outstanding. The size of this challenge can be seen by just simply dividing our total debts by around 13 years left of our franchise – the Company needs to generate a cash surplus close to \$200 million each year, on average, just to repay its debts without considering its other obligations, such as shareholder's equity and return.

1.4 Obligation to Maximize Revenue

Under the Project Agreement signed between the Government and the Company, the Company has an obligation to maximize its Net Revenue. This objective is natural for any commercially oriented company such as the WHC so as to achieve both commercial and contractual obligations.

2.0 COST REDUCTION & REVENUE ENHANCEMENT

Despite the Company operating costs before rates and insurances at the year ending Jul 2009 was decreased by 17.5% when compared to 1997, huge increase in rates, insurance premium and electricity cost are uncontrollable. e.g. increase in rates at 453% (from \$6.2M per annum in 1997 to \$34.3M per annum in 2010/11), increase in insurance premium 294% (from \$3.5M per annum in 1997 to \$13.8M per annum in 2010/11), and tariff of HK Electric increased around 50% since 1997.

2.1 Cost Reduction

- Contract out services (such as staff canteen);
- Energy reduction (implementation of energy conservation programme);
- Operation cost reduction.

2.2 Other Revenue Enhancement

Under the WHC Ordinance, the tunnel company is restricted to two auxiliary revenue sources, namely advertising and utilities through the Tunnel Area. WHC was the first tunnel having all mobile phone networks installed. It also has advertising billboards and fixed line telephone optic fibres installed. All these facilities have not only facilitated the users of WHC but also generated additional incomes which reduce pressure to a certain extent for toll adjustment. However, revenue from mobile phone operators will reduce substantially because of the introduction of the new Telecommunication Ordinance. Due to more media channels and keen competition in advertising market, the growth of tariff and occupancy rate from advertising sites at WHT are limited. Unlike MTRC, the Company does not have any property development right hence there are great difficulty to improve other income.

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3.0 TOLL LEVEL

3.1 The Gazetted Toll and Concessionary Toll

The Gazetted Toll and Concessionary Toll will be revised with effect from 31 Jul 2010 and 1 August 2010 respectively.

Vehicle Type	Before Adjustment		After Adjustment			Difference	
	Gazetted Toll	Concessionary Toll	Gazetted Toll from 31/7/2010	Concessionary Toll from 1/8/2010	Discount Rate	Gazetted Toll	Concessionary Toll
Motorcycles	\$55	\$22	\$60	\$23	62%	\$5	\$1
Private Cars	\$110	\$45	\$120	\$50	58%	\$10	\$5
Taxis	\$110	\$40*	\$120	\$45*	63%	\$10	\$5
Public & Private Light Buses	\$120	\$55	\$130	\$60	54%	\$10	\$5
Light Goods Vehicles	\$165	\$55^	\$180	\$60^	67%	\$15	\$5
Medium Goods Vehicles	\$225	\$80^	\$245	\$85^	65%	\$20	\$5
Heavy Goods Vehicles	\$335	\$110^	\$365	\$115^	68%	\$30	\$5
Public & Private Single-decked Buses	\$120	\$80	\$130	\$90	31%	\$10	\$10
Public & Private Double-decked Buses	\$175	\$115	\$190	\$128	33%	\$15	\$13
Each extra axle in excess of 2 (Goods Vehicles only)	\$110	\$30^	\$120	\$30^	75%	\$10	-

* Empty taxi toll promotion (charging \$10 in cash with a rebate of \$5 prepaid tunnel ticket) during mid-night 00:00 to 07:00 a.m. will be extended to 31 Jan 2011.

^ GV toll promotion (charging \$15 for LGV, \$20 for MGW, \$30 for HGV & \$10 for each extra axle in Cash or WHT prepaid ticket) will be extended to 31 Jan 2011 during “mid-night 00:00 to 07:00 a.m.” with effect from 1 August 2010.

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