

**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 2011 (i.e. after a period of 23 years since the start of the 30-year franchise in 1988), Tate's Cairn Tunnel Company Limited ("TCTC") has accumulated profit of \$625 million, lagging far behind the Base Toll Proposal in which an accumulated profit of \$4,067 million had been projected with the expected IRR of 13.02%. The deviation resulting 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% (2010/11) 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	\$12	\$13	\$1
Private car & taxi	\$15	\$17	\$2
Public light bus	\$21	\$23	\$2
Private light bus & light goods vehicle	\$22	\$24	\$2
Medium & heavy goods vehicle	\$26	\$28	\$2
Single-decker bus	\$29	\$31	\$2
Double-decker bus	\$32	\$34	\$2
Extra axle	\$19	\$21	\$2

Expected Effective Date 1 Jul 2013

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 fourteen years; from about \$86 million in 1996/97 to about \$63 million in 2010/11. 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 and Route 8 (less than 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>
2006	96%
2007	98%
2008	97%
2009	97%
2010	96%
2011	98%
2012	98%

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

- upgrading the manual toll collection system; and
- road resurfacing.

TCTC plans to invest more than \$14 million capital expenditure in the remaining 6 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:

Tate’s Cairn Tunnel Company Limited  
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