

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 2014 (i.e. after a period of 26 years since the start of the 30-year franchise in 1988), Tate's Cairn Tunnel Company Limited ("TCTC") has accumulated profit of \$1,283 million, lagging far behind the Base Toll Proposal in which an accumulated profit of \$5,340 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 accumulated loss in its 20th year. Note that another comparable project, the Eastern Harbour Tunnel, eliminated its accumulated loss in its 7th year.

Tolls constitute TCTC’s core income and account for about 96% (2013/14) 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	\$13	\$15	\$2
Private car & taxi	\$17	\$20	\$3
Public light bus	\$23	\$23	-
Private light bus	\$24	\$26	\$2
Light goods vehicle	\$24	\$24	-
Medium & heavy goods vehicle	\$28	\$28	-
Single-decker bus	\$31	\$32	\$1
Double-decker bus	\$34	\$35	\$1
Extra axle	\$21	\$24	\$3

Expected Effective Date 1 Dec 2015

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) over the past seventeen years; from about \$86 million in 1996/97 to about \$70 million in 2013/14. 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 700 vehicles daily), Tai Po Road (about 100 vehicles daily) and Route 8 (about 300 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>
2010	95.6%
2011	97.6%
2012	98.2%
2013	97.6%
2014	98.2%

Prepared by:

Tate’s Cairn Tunnel Company Limited
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