

March 11-13, 2012
Westin Hotel
Cape Town, South Africa

IBTTA Transportation Summit of South Africa

Toll Road Concessions

**A Public & Private View:
Considerations during the Bidding and
Operations Phase of a Project**

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OVERVIEW

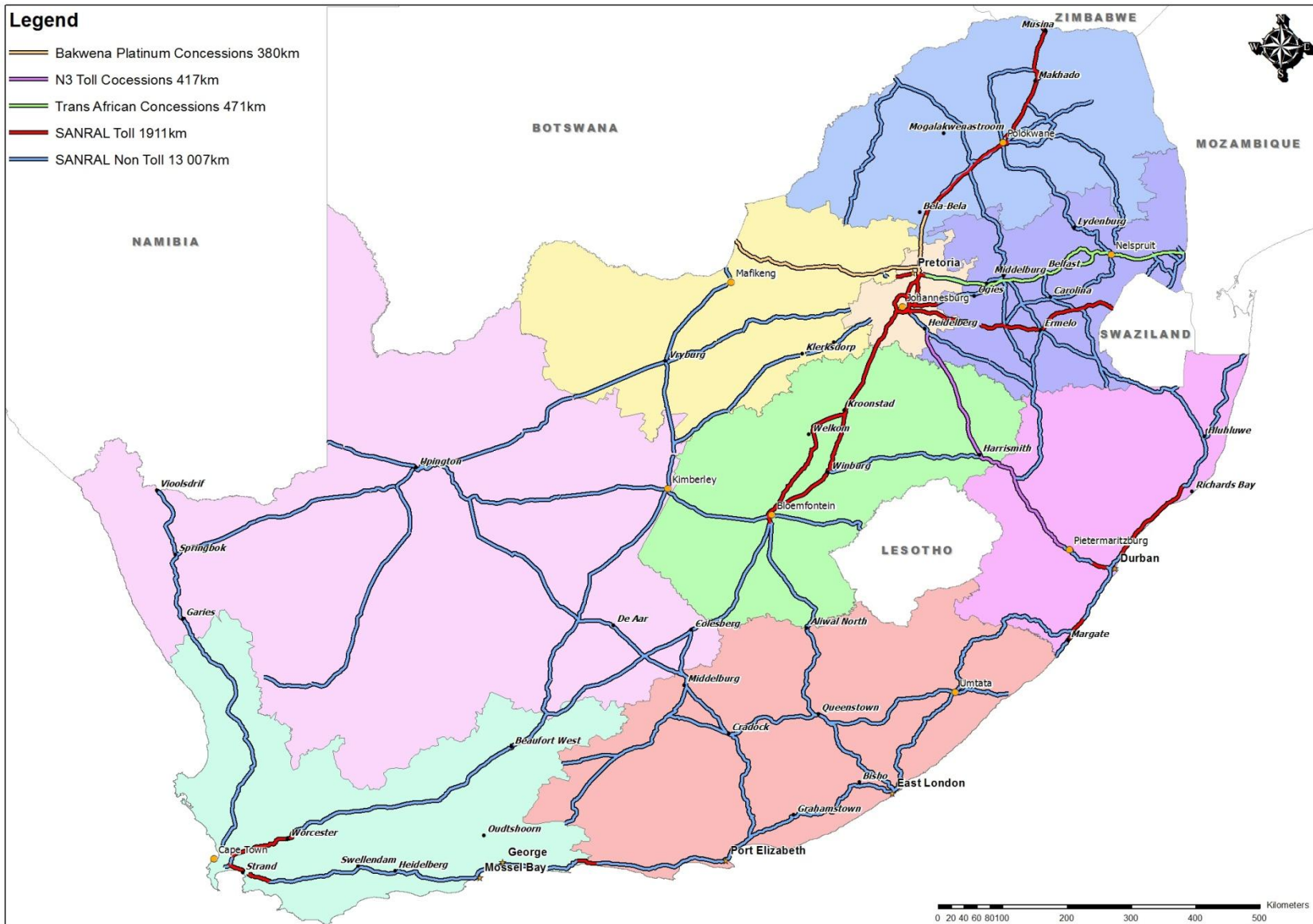
- SA National Road and Toll Road Network.
- The N3TC
- Lessons learnt during the Operations Phase.

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Legend

- Bakwena Platinum Concessions 380km
- N3 Toll Concessions 417km
- Trans African Concessions 471km
- SANRAL Toll 1911km
- SANRAL Non Toll 13 007km



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Who we are and what we do

- **N3TC has a thirty year Concession - SANRAL.**
- **Operations commenced on 2 November 1999.**
- **Design, Construct, Finance, Operate and Maintain.**
- **Toll Route length: 415 kilometres.**



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Who we are and what we do

- Four mainline toll plazas and five ramp plazas.
- Approximately 60 million tons of freight on the Route per annum.
- Heavy vehicle volume: 35%.
- On average 55 000 toll transactions are registered daily - No ETC as yet.



Lessons Learnt: Operations Phase

Lesson No 1: Construction Contract

- **N3TC contracted with the N3 Contractors Consortium:**
 - **Design and Construct – Lump Sum Contracts.**
- **The Contractor JV members were also N3TC shareholders.**

Lessons Learnt: Operations Phase

Lesson No 1: Construction Contract

- **Construction Contracts:**
 - Initial Construction Works(ICW);
 - Upgrade Repair and Replacement Contracts(URR); and
 - De Beers Pass: 100km of new road.
- **ICW Scope of Works underestimated by Contractor – Premature Failures/ Claims.**
- **Conflict between Contractor Shareholders and Other SH.**

Lessons Learnt: Operations Phase

Solution: Concession Contract Amended in 2005

- **New Pavement Engineering Strategy developed by N3TC.**
- **N3TC adopted Conventional Construction Contract Format**
 - Client / Engineer / Contractor.
- **N3TC invites tenders from capable contractors.**

Lesson No 1

Carefully consider the contractual relationship between the Construction Shareholders and the Concession Company.

Lessons Learnt: Operations Phase

Lesson No 2: Public Acceptance of the Tolls

- **Affordability vs Willingness to Pay**
- **Pricing Principle: Value Based Pricing**

The Customer considers:

- What do they get for their money?
- Do they get a competitive advantage?
- What alternatives are available?
- What is the cost of the alternatives?

Lessons Learnt: Operations Phase

Lesson No 2: Public Acceptance of the Tolls

- **The tariffs on the N3 were increased by a one off 29% - upfront**
 - Identified key customers and “sold the increase”.
 - Improved the customer service offering.
 - Embrace our brand promise “Safety. Convenience. Mobility.”

Lesson No 2

Selling a product vs posting a toll?

Lessons Learnt: Operations Phase

Lesson No 3: Toll Tariff Adjustment

- Tolls adjusted annually by CPI.
- The Cost Base can escalate at a higher rate than CPI.
- Disconnect between revenue and costs – particularly URR costs.
- Need protection against “Super Cost” increases.
- Hedging can offer a partial solution.

Lesson No 3

The Concession Contract should allow for a “Super Cost” sharing mechanism.

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Lessons Learnt: Operations Phase

Lesson No 4: Traffic Predictions

- An Art vs a Science?

Traffic Mix	Predicted	Actual
Heavies	20%	35%
Lights	80%	65%

Traffic Growth	Predicted	Actual
Heavies	5%	10%+
Lights	2.5%	2.2%

Lesson No 4:

Do an independent review.

Get your predictions wrong on the right side?

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Lessons Learnt: Operations Phase

Lesson No 5: Law Enforcement

- **Key Areas**
 - Public Safety
 - Road Safety
 - Overload Control

Lessons Learnt: Operations Phase

Lesson No 5: Law Enforcement

- **Underestimated:**
 - law enforcement issues we had to deal with;
 - lack of Government commitment to Road Safety;
 - public's general disregard for the law;
 - effort to improve road safety; and
 - ability to determine the damage caused by overloading.

Lesson No 5

The Concession Contract should allow for dedicated Law Enforcement.

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Lessons Learnt: Operations Phase

Thank You