SOUTH AFRICA

The N3Toll Concession(Pty)Ltd: Lessons Learnt during the Bidding and Operations Phase

C J Tolmie
N3 Toll Concession (Pty) Ltd
OVERVIEW

• The SA National Road and Toll Road Network

• The N3 Toll Concession(Pty) Ltd (N3TC)

• Lessons Learnt
Who we are and what we do?

• N3TC has a thirty-year Concession Contract.
• Operations commenced on 2 November 1999.
• Design, Construct, Finance, Operate and Maintain the N3 Toll Route.
• Toll Route length: 415 kilometres.
Who we are and what we do?

- Four mainline toll plazas and five ramp plazas.
- Traffic: 12 000 - 16 000 vehicles per day - 35% heavy vehicles.
- On average 55 000 toll transactions are registered daily. (No ETC as yet)
- Approximately 50 million tons of freight on the Route per annum.
Lessons Learnt

1. Construction Contract Structure

- N3TC contracted with the N3 Contractors Consortium:
  - Design and Construct Lump sum Contracts

- The N3 Contractor Consortium were also N3TC Shareholders.
Lessons Learnt

   - Construction Contracts
     - Initial Construction Works (ICW);
     - Upgrade Repair and Replacement Contracts and
     - De Beers Pass: 100km of new road.

   - ICW scope of works was underestimated by Contractors – Premature Failures/ Claims.

   - Conflict arose between Contractor Shareholders and Other Shareholders.
Lessons Learnt

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

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

2. Public Acceptance of the Tolls cont.

• The tariffs on the N3 were increased by a one off 29% - upfront

• Solution
  • Identified key customers and “sold the increase.”
  • Improved the customer service offering.
  • Embraced our brand promise “Safety. Convenience. Mobility.”

Lesson No 2

Selling a product vs posting a toll?
Lessons Learnt

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 cost.
- Need protection against “Super Cost” increases.
- Hedging can offer a partial solution.

Solution

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

Lesson No 3

The Toll Tariff Adjustment mechanism should be carefully considered.
Lessons Learnt

4. Traffic Predictions

An Art vs a Science?

<table>
<thead>
<tr>
<th>Traffic Mix</th>
<th>Predicted</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavies</td>
<td>20%</td>
<td>35%</td>
</tr>
<tr>
<td>Lights</td>
<td>80%</td>
<td>65%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Traffic Growth</th>
<th>Predicted</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavies</td>
<td>5%</td>
<td>+8%</td>
</tr>
<tr>
<td>Lights</td>
<td>2.5%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

Solution

Do an independent review.

Lesson No 4

Be cautiously optimistic.
Lessons Learnt

5. Law Enforcement

• Key Areas
  • Public Safety
  • Road Safety
  • Overload Control
Lessons Learnt

5. Law Enforcement Cont.

- Underestimated:
  - Law enforcement matters 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.

Solution

The Concession Contract should allow for dedicated Law Enforcement.

Lesson No 5

The Authorities should dedicate law enforcement services to the project.
THANK YOU