



PROJECT FINANCE ADVISORY

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PPP in the Toll Road Sector

“PPP Principles in Practice” NZCID Seminar

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Agenda

Session 1: The Australian Toll Road PPP Market

Session 2: Case Study – North South Bypass Tunnel (Queensland)

Session 3: Case Study – N4/N6 Kinnegad-Kilcock (Ireland)

Session 1: The Australian Toll Road PPP Market

- Market Overview**
 - The Cross City Tunnel**
 - Bid Process**
 - Key Issues Moving Forward**

Market Overview- Brisbane, Sydney and Melbourne Networks



Brisbane

- 1 project has reached financial close
- 3 roads in tender and strong pipeline of projects
- User pays tolling
- BOOT delivery model



Sydney

- 8 projects have reached financial close
- Moderate project pipeline
- User pays tolling (including distance based)
- BOOT delivery model



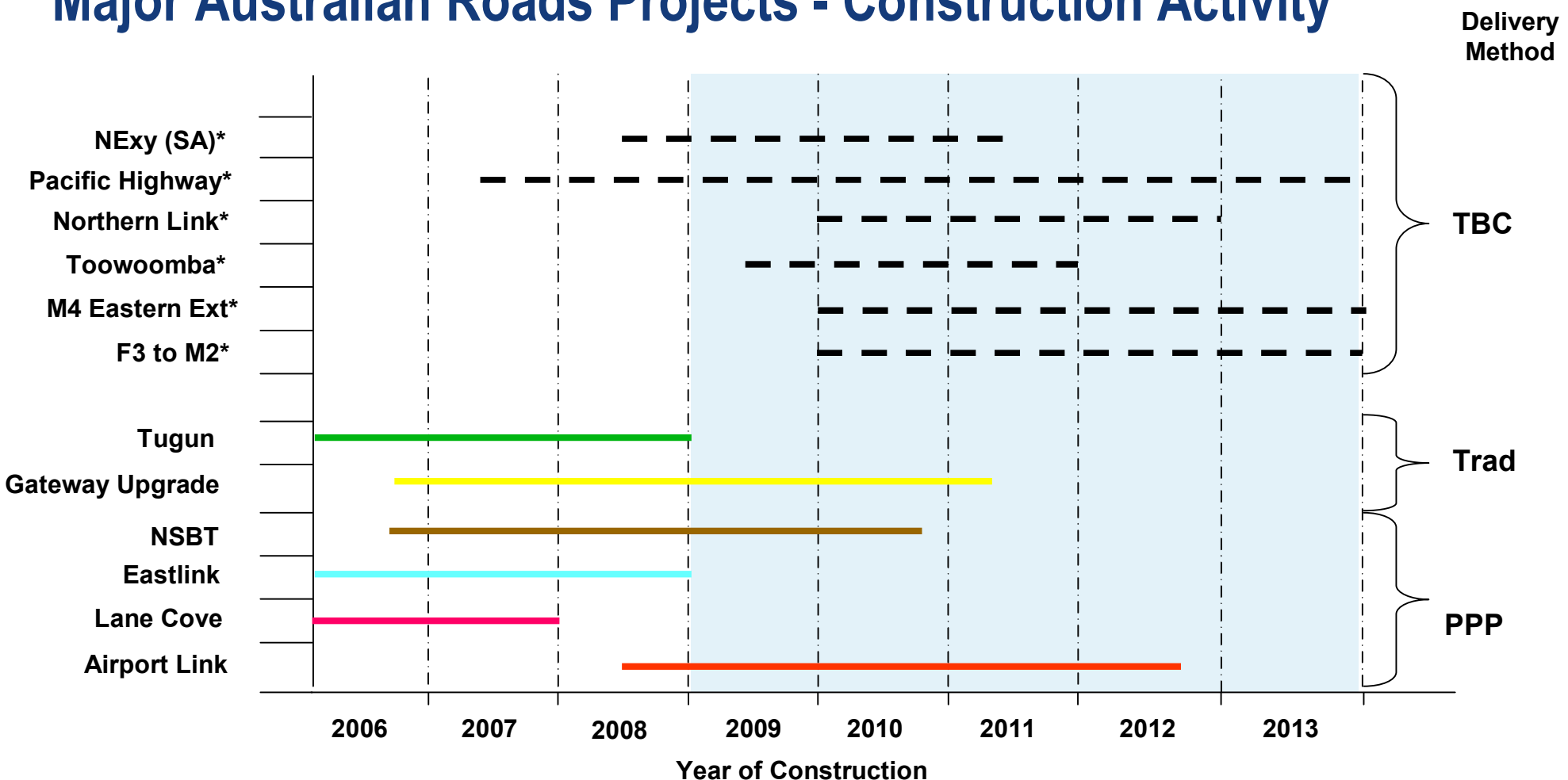
Melbourne

- 2 projects have reached financial close
- Small pipeline of projects
- User pays tolling (including distance based)
- BOOT delivery model

Increasing Activity (and Consolidation) in Existing Toll Roads

Project	State	Owner/s	Contract Expiry
North-South Bypass Tunnel	Qld	RiverCity Motorway (Listed)	2051
Sydney Harbour Tunnel	NSW	Transfield Holdings, Tenix	2022
Hills M2	NSW	Transurban	2042
M4	NSW	Subject to Transurban takeover of Sydney Roads Group	2010
M5	NSW		2023
Eastern Distributor	NSW		2048
Cross City Tunnel	NSW	CKI, Bilfinger Berger, DB Rreef (in receivership)	2036
Westlink M7	NSW	Transurban, MIG, Leighton	2037
Lane Cove Tunnel	NSW	ABN, James Fielding, CKI, Thiess, John Holland, various super funds	2036
CityLink	Vic	Transurban	2034
EastLink	Vic	ConnectEast (Listed)	2043

Major Australian Roads Projects - Construction Activity



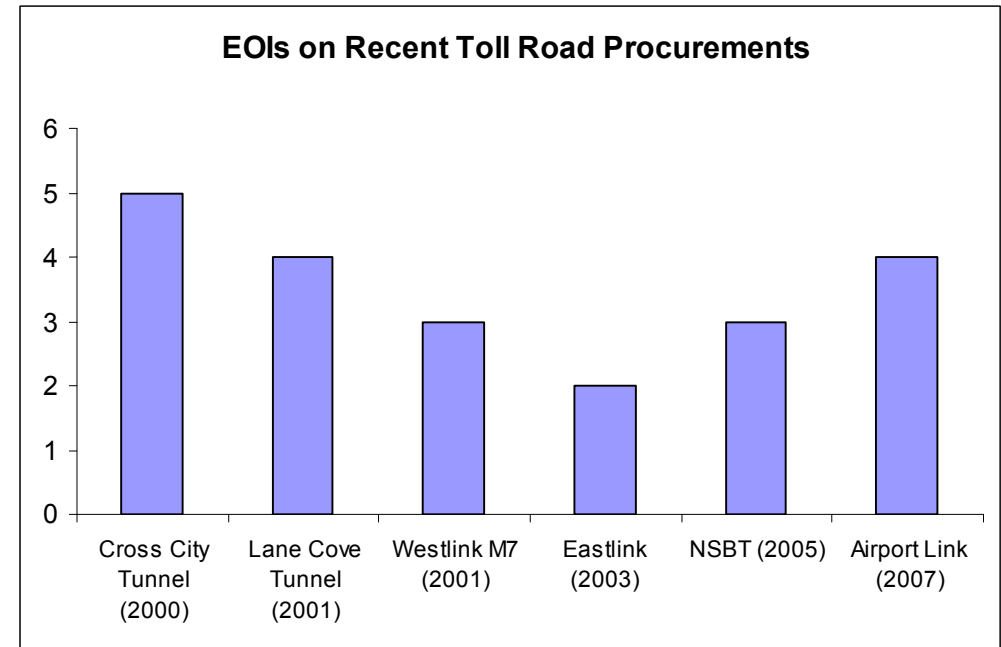
* Please note these projects are at the early feasibility stage and the timelines illustrated relate to preliminary estimates of when they may be undertaken, therefore it is unlikely that work will be undertaken for the entire period.

Greater Risk Transfer to Private Sector

Project Risk/Opportunity	Early Toll Road PPPs	Recent Toll PPPs
Traffic Risk	Partially underwritten by Government	Fully transferred to private sector
Toll Escalation	Greater of CPI and 4% p.a	Set by Government (CPI)
Competing Routes	Full protection	Very limited protection
Upside Sharing	None or low-ranking benefit share	Revenue based mechanism
New Connections	No specific benefit sharing	Specific benefit sharing
Assumed Refinancings	Not on early deals	Assumed in bids
Refinancing Benefit Share	None	50% share to Government
Termination Compensation	None on Concessionaire default	None on Concessionaire default
Equity Returns	15% - 20%	12% - 13%

The Australian Bidding Market

- Leighton / Bilfinger dominance continues
- New players : Bouygues, ACS/Dragados
- Transurban and MIG not bidding
- Emergence of Babcock & Brown
- Financial investors seeking Sponsor roles
- Increasingly aggressive financing terms
- Increasing focus on the US – capital and resources



Session 1: The Australian Toll Road PPP Market

Market Overview

→ The Cross City Tunnel

Bid Process

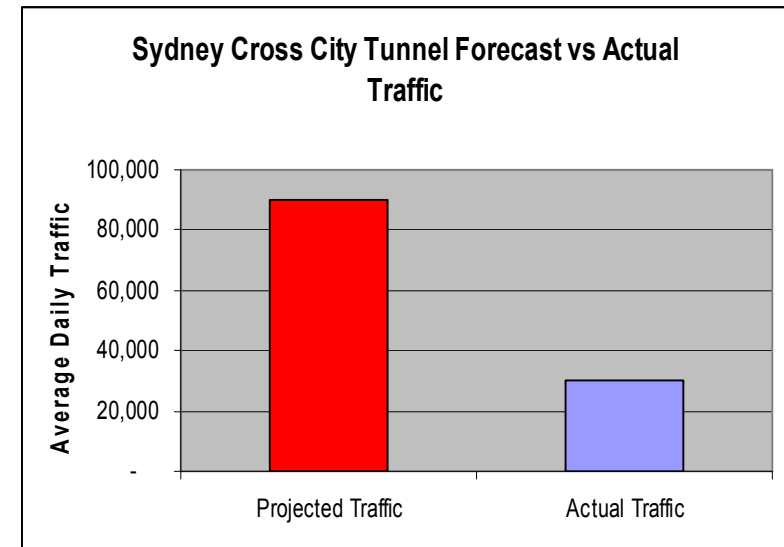
Key Issues Moving Forward

The Cross City Tunnel Situation – Project Overview

- Opened in August 2005 (two months ahead of schedule) bypassing the city connecting the east and west of Sydney
- Project cost of \$680 million
- Concession period 33 years (3 years construction, 30 years operation)
- Concession awarded to Cross City Motorway Ltd, comprising of Cheung Kong Infrastructure Holdings Ltd (50%), DB Capital Partners (30%) and Bilfinger Berger (20%)
- Tender process:
 - RTA set the toll level and concession term
 - Tenderers bid an up-front payment to/from RTA

The Cross City Tunnel Situation – The Key Issues

- Private sector got it wrong – actual traffic around 30% of forecast
- Surface road modifications
 - Lack of community engagement
 - Contractual commitment
- Contract disclosure
- Toll v Up-front Payment debate
- Numerous inquiries and inquests!
- Receiver appointed. Sale process has commenced.



Source: various media

The Cross City Tunnel Situation – Key Outcomes

- 1st of 11 PPP toll road contracts in Australia to go into receivership
- Private sector written off 100% of their equity (>\$400M)
- No cost to Government or taxpayer
- No business interruption
- Financiers not walking away
- Lessons learned already incorporated into next deals
- Deep secondary market interested in restructuring the transaction

The Cross City Tunnel Situation – Key Outcomes (cont.)

- **The NSW Joint Select Committee:**

“The Committee believes that there is a place for PPPs in the provision of public infrastructure in New South Wales, but only if they genuinely offer value for money over the alternative methods of provision, and the community are satisfied that the processes followed by government agencies are appropriate and have been followed.”

- **The Infrastructure Implementation Group review note:**

“The NSW Government, in appropriate circumstances, should continue to use PPPs to deliver motorway projects, subject to existing government policies and processes.....”

Session 1: The Australian Toll Road PPP Market

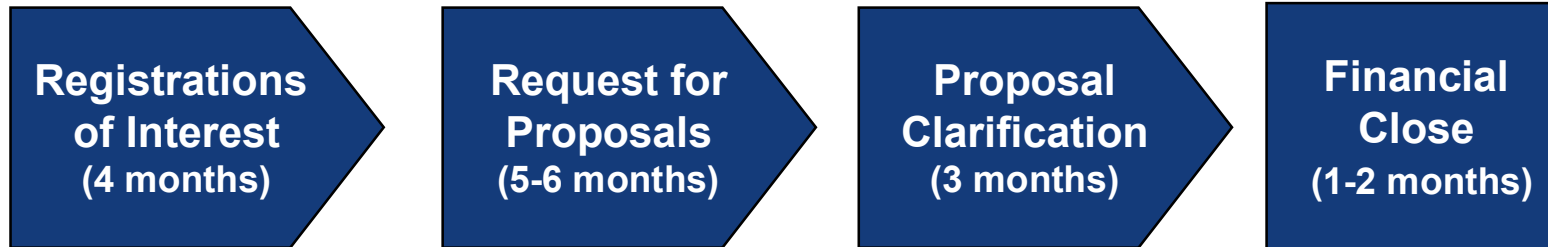
Market Overview

The Cross City Tunnel

→ Bid Process

Key Issues Moving Forward

Typical Bid Process

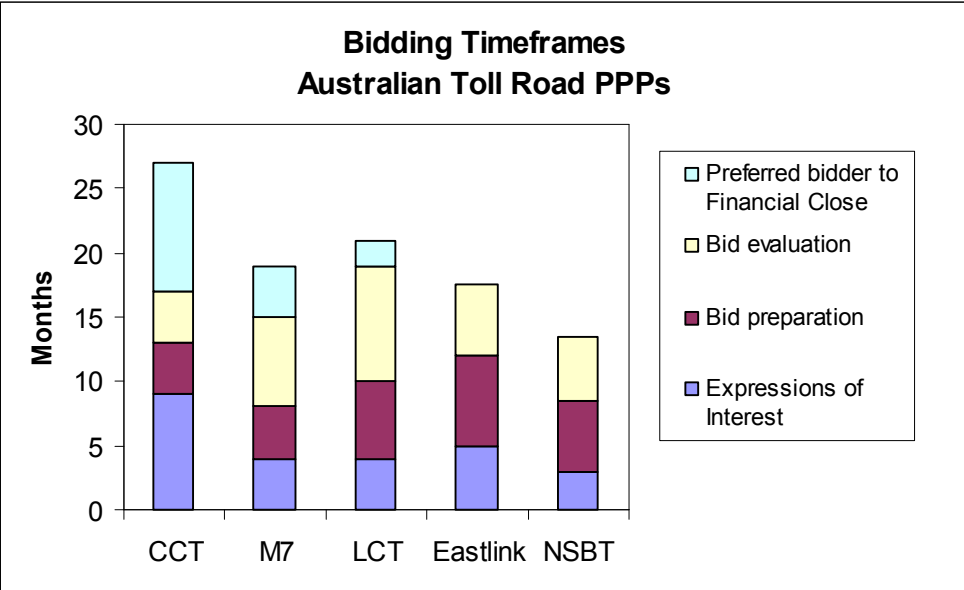


- Experience & Capability
- Shortlist to 3 or 4

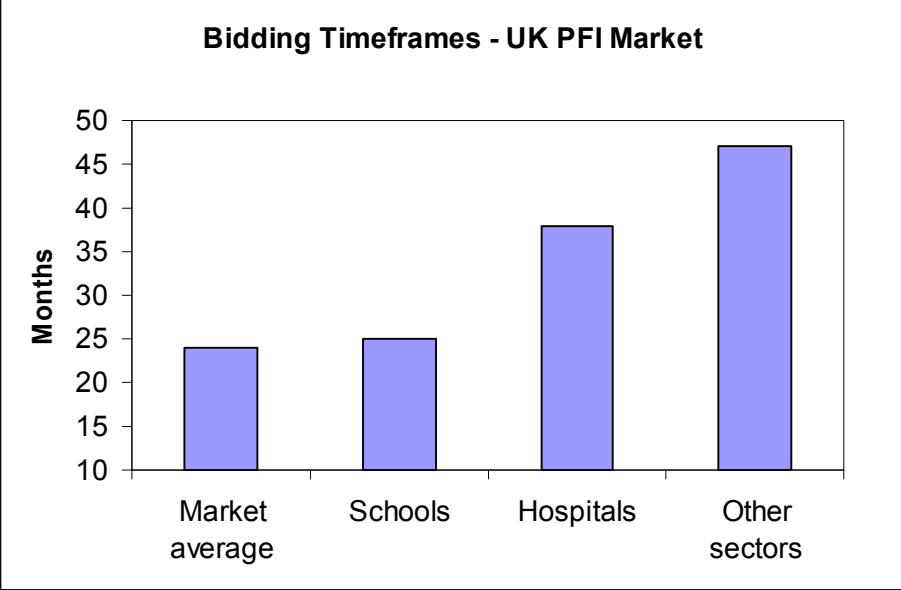
- Interaction with Govt
- Underwritten bid
- Marked up Deed
- Term Sheets

- Written clarifications
- No meetings
- Fully documented proposals

Gradual Improvement in Bidding Timeframes



Source: Ernst & Young



Source: "Improving the PFI Tendering Process" NAO Report, 8 March 2007

The Australian PPP procurement process compares favourable with the more mature UK market

Session 1: The Australian Toll Road PPP Market

Market Overview

The Cross City Tunnel

Bid Process

→ Key Issues Moving Forward

Potential New Entrants

Company	Role	Australian Experience
Grupo ACS	Builder and Owner/Operator	<ul style="list-style-type: none"> - EastLink tolling system - EOI for Airport Link/Northern Busway
Cintra/Ferrovial	Builder and Owner/Operator	<ul style="list-style-type: none"> - Bid Lane Cove Tunnel - SACL ownership
Bouygues	Builder	<ul style="list-style-type: none"> - Sydney Airport Link - Bid M7, Gateway, NSBT - Currently bidding Hale St Bridge
Laing O'Rourke	Builder and Owner	<ul style="list-style-type: none"> - Barclay Mowlem - Bidding social PPPs
Fluor	Builder	<ul style="list-style-type: none"> - Involvement in rail

Is the Market overheated?

- Risks to Government
 - Project failure
 - IPO “Mums and Dads”
- Should Government intervene?
- Issues
 - Minimal commercial risk exposure to Government
 - Political risk
 - Financiers mandate “equity lock-ins”
 - Cost of implementation

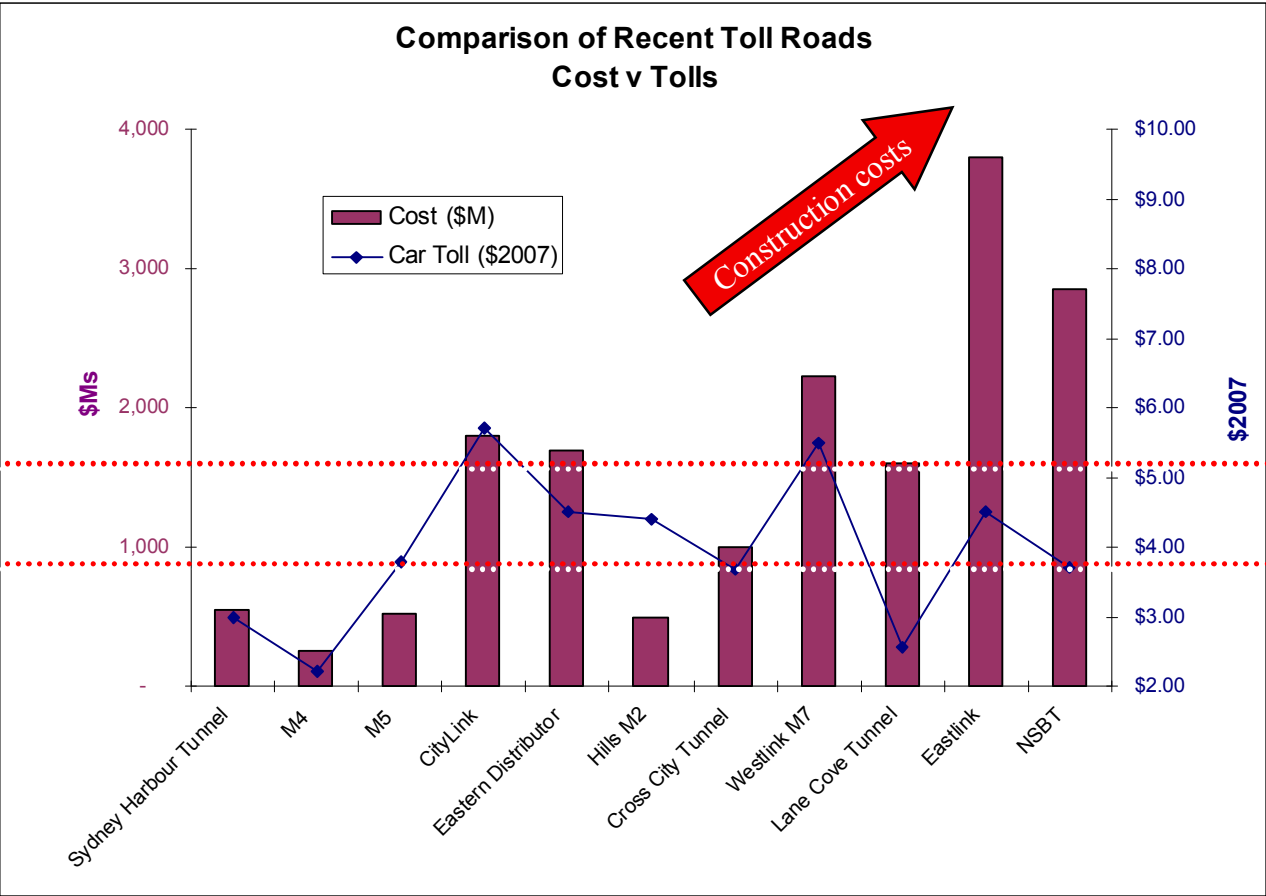
Funding Competition

- UK Treasury has issued draft policy guidelines. M25 first road project
- Why run a Funding Competition?
 - Additional value for Government
 - Bid cost savings
 - Market capacity issues
- Issues
 - Interplay with demand risk on toll roads
 - Financiers increasingly relying on sponsor due diligence
 - Is there additional value?
 - Timetable impact

Improving the Process – Reducing Bid Costs

- Bidders are not maximising the use of interaction during bid preparation stage
- Integrated Government Project teams
- Consistent faces to the market
- Early disclosure of affordability limit
- Reimbursement of bid costs
- Clarity regarding key variables – toll, subsidy, term, revenue share

Delivery Model – Focus on Government Contribution



- Future urban projects likely to involve major tunnels
- Market activity and project complexity driving up costs
- Acceptable toll levels seem to have been determined
- **Therefore, future projects will require significant Government contributions**

Car toll in \$4.00-\$5.00 range

Delivery Model

- Project size requiring significant subsidies/contributions
- Increasing interest in alternative structures
 - Contributions during construction and/or operations
 - Availability payments and/or shadow tolls
 - Hybrids : combinations with real tolls
- Potential alternative processes:
 - Early appointment of “equity” developer
 - Alliances

Project economics will drive consideration of alternative delivery models

Session 2: Case Study 1 – North-South Bypass Tunnel

The Challenge

Business Case Stage

Procurement Process

The Deal Done with RiverCity Motorway

Project Outcomes

Brisbane City Council's TransApex Plan



- Long-term plan to promote free-flowing traffic throughout Brisbane
- Sequential delivery of primarily underground road links:
 - North-South Bypass Tunnel (NSBT)
 - Airport Link
 - Hale Street Bridge
 - Northern Link
 - East-West Link

The Challenge



- Large complex project
- Challenging timetable – Business Case to Financial Close in just over 2 years
- Bidding market's scepticism about Queensland
- Competing projects – Australia and international
- Brisbane City Council's first major project
- Project affordability

Cost of bidding estimated at between \$10M and \$20M
So bidders required, as a minimum, confidence in the process

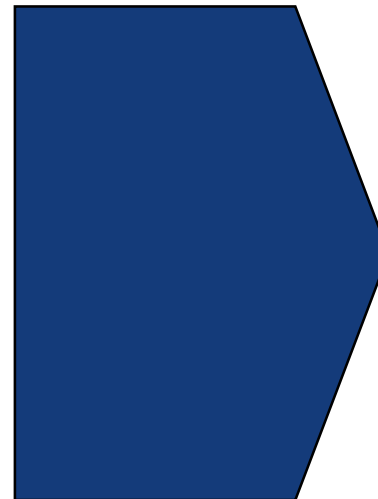
Business Case Overview

■ Business Case Objectives

- Project justification: technical, economic and financial
- Preferred delivery model
- Affordability analysis

■ Key Tasks

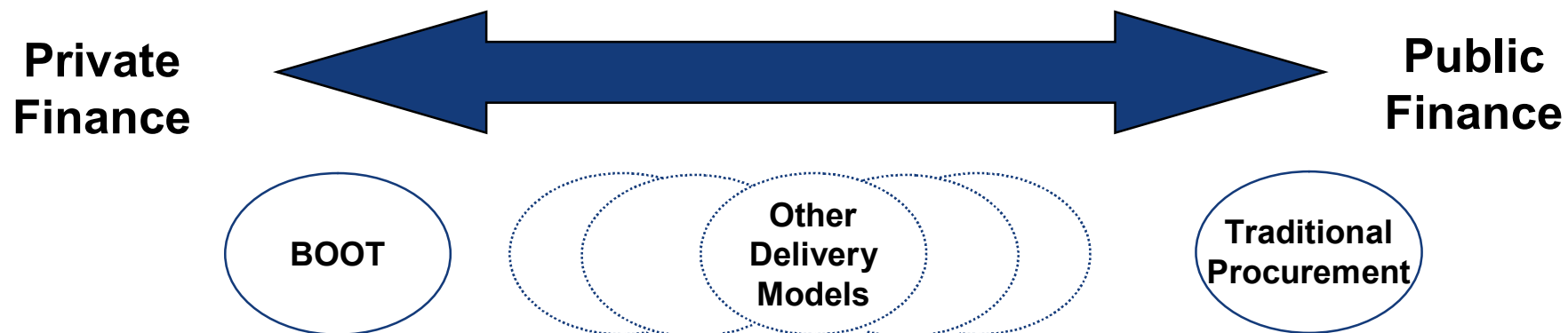
- Output Specification
- Reference Project
- Delivery Options
- Risk Analysis
- Market Sounding
- Public Interest Assessment
- Environmental Impact Statement
- Value For Money Assessment



**Robust basis to take
the Project to market**

Identification of Procurement Models

- Model needed to support Council's key objectives
- Must be deliverable – market appetite, precedent transactions
- Must meet Council's preferred risk allocation



Results of Business Case

- Incorporated valuable feed back from Market Sounding
- Procure as a PPP
 - Value For Money drivers are present – qualitative and quantitative analysis
 - Toll road PPP market maturity
 - Market Sounding supports this
 - Optimal risk exposure for Council (and the State)
 - Provides Council greater flexibility to deliver TransApex
- Importance of demonstrating Council and State Government commitment
- Bids need to demonstrate Value For Money

Procurement Strategy

- Demonstrate certainty of outcome – bankable deal, transparent affordability limit (\$450M) and political commitment
- Truly integrated procurement team
- One-on-one structured interaction with bidders
- Minimise bid costs (precedent & contribution to costs)
- Benefit sharing proposals
- Committed bids – including proposals requiring EIS amendments
- Realistic timetable

Bidding Parameters

- Compliance with EIS, Output Specification and Project Deed
- Three Options:
 - \$3.30 toll, 35 year term, bid subsidy
 - \$2.00 toll, 35 year term, bid subsidy
 - Bid toll to minimise subsidy, based on 35 year term
- Alternatives
- Committed finance through Term Sheets

Bidders

BrisConnections

Thiess / John Holland / Hochtief / Macquarie Bank

RiverCity Motorway

Leighton / Baulderstone Hornibrook / Bilfinger Berger Concessions / ABN AMRO

Brisbane Express Motorway

Bouygues / McConnell Dowell / Egis

Timetable

Stage	Target	Actual
Business Case	February 2005	November 2004
Call for Expressions of Interest	March 2005	March 2005
Short-listing	April 2005	May 2005
Call for Tenders	June 2005	June 2005
Tender Submissions	December 2005	December 2005
Preferred Bidder	April 2006	March 2006
Contractual Close	June 2006	May 2006
Financial Close	August 2006	August 2006

Overview of the Deal with RiverCity Motorway

- Design, construction, maintenance, operating (including traffic and revenue) and financing (refinancing) risks transferred to RCM
- Council contribution to the project deferred until construction completion
- Concession term of 45 years
- Tolls increase annually in accordance with Brisbane CPI
- Benefit sharing arrangements
 - Revenue sharing (including 30% in last 10 years of concession)
 - Refinancing
 - Compensable enhancements

Funding Structure

Combination of:

- Bank Debt;
- Council Contribution
- Sponsor Equity; and
- Initial Public Offering

Stage	%	Time Line
IPO	29	Listed 3 rd August 2006
Bank Debt	49	Completed 4 th August 2006
Council Contribution	17	Amount sized 4 th August 2006 payable at construction end
Sponsor Equity	5	End of construction

Total funding raised – \$2.8 billion

Key NSBT Project Outcomes

■ Deal outcomes

- > Value for Money outcome
- > Preferred risk allocation position maintained
- > Full release of project documents at Financial Close
- > All project timelines met
- > Reduced bidding costs for bidders and government.

■ Comparison with *'Richmond Review'* Recommendations

- > Assessment of 'value for money' to users (tolls and user charges)
- > Communications strategies and evaluation
- > Public release of project documents - but maintaining competition
- > No closure of surrounding roads
- > Mandatory requirement for a toll free period – link to early completion

NSBT Procurement was successful because...

- Clear business case
- Political commitment
- Council team properly resourced
- Sensible approach to risk allocation and documentation
- Effective engagement with the bidding market
- Private sector had the expertise to deliver
- Risk allocation genuinely with “party best able to manage or mitigate”
- Addressed Richmond review

Session 3: Case Study 2 – N4/N6 Toll Road (Ireland)

The Irish PPP Toll Road Programme

Project Overview

Procurement Process/ Delivery Model

The Deal Done with Eurolink

Project Outcomes

Irish Roads PPP Programme

Project Name	Expression of Interest	Preferred Tenderer	Construction	Operation	Payment Mechanism
Waterford Bypass			√		User pay toll
Limerick Ring Road II			√		User pay toll
M5 Second West-Link Toll Bridge				√	User pay toll
N1/M1 Dundalk Western Bypass				√	User pay toll
M3 Clonee- Kells Bypass		√			User pay toll
N4 Kilcock – Kinnegad				√	User pay toll
N6 Galway to East Ballinasloe		√			User pay toll
M7 Portlaoise - Castletown		√			User pay toll
M8 Portlaoise - Cullahill		√			User pay toll
M8 Rathcormac – Fermoy Bypass				√	User pay toll
M50 PPP Contract	√				To be determined

- 11 schemes launched in 2000
- Tolls set by the NRA
- Programme designed to generate international competition

N4/N6 Toll Road Project Overview

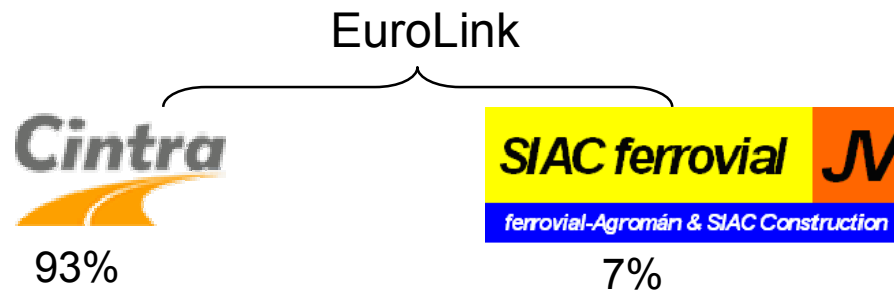
- First scheme to tender in PPP programme
- Construction of 39 km 2x2 lane motorway from Kinnegad to Kilcock
- 19 overbridges, 7 underbridges and 3 underpasses
- Starting traffic – c10,000 – 15,000 AADT
- User paid tolls – including ETC function
- Runs parallel to free N4
- 12 consortia submitted Expressions of Interest

Timetable

Stage	Date
Expressions of Interest	February 2000
Invitation to Tender	September 2001
Tender Submission	February 2002
Short-listed Tenderers	May 2002
BAFO Submission	September 2002
Preferred Bidder	December 2002
Financial Close	March 2003
Construction Commenced	June 2003
Operation Commenced (10 months early)	December 2005

N4/N6 Toll Road Project Bidders

- Winning Bid Consortium:



- Other Bidders

- Celtic Roads : Dragados / NTR / BAM
- ErinRoute : Balfour Beatty / Carillion / WS Atkins / Egis
- Direct Route : Halliburton / Strabag

Payment Mechanism

- Toll revenue not sufficient to fund capital costs
- So tender process focused on bidding:
 - Payments from NRA: construction and operations
 - Payments to NRA: revenue share
 - Operations Payments
- Affordability constraints set by NRA
 - Construction payments : €160 million
 - Operations payments : €6 million p.a.
 - Revenue share : only above Base Case traffic

Overview of the Deal with EuroLink

- Design, build, financing (refinancing) and operating risks (including traffic and revenue) transferred to EuroLink
- Accepted key risks including competing/alternative routes
- Concession term 30 years (including 2.5 years construction)
- Authority payments made during D&C and Operation phases
- Toll increase periodically in line with Ireland CPI
- Benefit sharing arrangements
 - Revenue sharing
 - Refinancing

Project Outcomes

- First road PPP project mandated by NRA
- Bid process was highly competitive
- Road has since opened 10 months early
- Opening traffic above base bid
- Traffic growth for Jan 2005- 2006 was 14.45%
- EuroLink have now been selected as preferred bidder for the €600m DBFO of M3 Clonee to Kells toll road project

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