

Our Ref: 5M3975



31 January 2006

Ms Rachel Simpson
Director
Joint Select Committee Inquiry into the Cross City Tunnel
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Ms Simpson

JOINT SELECT COMMITTEE INQUIRY INTO THE CROSS CITY TUNNEL

I refer to my letter dated 27 January 2006.

Attached are RTA's responses to three further questions, as requested by your office yesterday.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mike Hannon', written over a light grey background.

Mike Hannon
Acting Chief Executive



31 January 2006

**Joint Select Committee Inquiry to the Cross City Tunnel
Further Responses to Questions on Notice**

- 1. Can you state exactly how the business consideration fee was calculated and, at the time the contract was entered into, what amount the RTA was trying to have repaid to it to recover the costs, including the total figure that you expected to have to recover, on a line-by-line basis for each item (p55 of transcript)**

The amount of the BCF was an output of CCM's base case financial model applying interest rates applicable on the date of financial close i.e. 19 December 2002.

At the time of financial close (ie December 2002) RTA had identified RTA costs as follows:

Category of Cost	Amount \$ Million
Project Development (Environmental studies, concept development etc)	34.4
Property Acquisitions	19.1
Public Utility Adjustments	30.2
5. Infrastructure Construction and handover	14.1
TOTAL	97.8

- 2. Would you also give an indication of what funds have been expended and what value you gave to the money being paid upfront and the expenditure being delayed. In other words, you have \$96 million, but that was in 2002. Mostly expenditure has not been incurred since then, so you have an interest component on that. I am trying to get to the net figure that the RTA achieved out of it. (p57)**

RTA received \$96,859,688 (plus GST) from Cross City Motorway on financial close in December 002. These funds were allocated to cover RTA costs associated with the Cross City Tunnel project.

Up to financial close RTA had incurred costs of approximately \$47.3m. Excluding costs funded by the First Amendment Deed, further costs of \$32.2m have been incurred up to 31 December 2005.

Total costs to 31 December 2005 (excluding First Amendment Deed works) are summarised in the table below.

Summary of RTA costs to 31 December 2005 funded using the Business Consideration Fee:

Category of costs	Amount (\$)
<u>Project Development</u>	
EIS & SEIS PSC costs	2,890,000
RTA survey	1,580,000
RTA EIS/SEIS costs	1,230,000
Concept design	2,020,000
Traffic modelling	700,000
Urban Design	720,000
Air quality analysis	410,000
Financial advice	380,000
Geo-technical advice	350,000
Misc PSC's & other costs	860,000
Community Liaison by RTA	470,000
Professional and Technical Services	8,110,000
RTA staff costs and other administrative costs	3,070,000
Sub-total	22,790,000
<u>Property Acquisition</u>	
Property Acquisition costs	4,340,000
Management of property acquisition	770,000
RTA staff costs and other administrative costs	270,000
Sub-total	5,380,000

<u>Utility Adjustments</u>	
EnergyAustralia utility adjustments at Darling Harbour	17,070,000
Other utility adjustments for EnergyAustralia works	2,470,000
Railway utility adjustments at Darling Harbour	1,870,000
Sydney Harbour Foreshore Authority costs	3,080,000
Airport Motorway Limited Interface costs	1,360,000
RTA staff costs and other administrative costs	<u>120,000</u>
Sub-total	25,970,000
<u>Infrastructure Construction + Project Administration</u>	
Construction work, including sub-station relocation	5,340,000
Environmental works	450,000
Professional and Technical Services	4,560,000
Other specialist advice	620,000
DIPNR Compliance Costs	3,120,000
Changes in scope (incl. alt vent stack investigation)	520,000
Stamp Duty cost to project	1,870,000
Change order costs to RTA (see separate sheet)	3,140,000
RTA staff costs and other administrative costs	5,080,000
Other RTA costs (Including T&T, TMC, etc)	650,000
Sub-total	25,340,000
Total	79,480,000

The remaining \$17.3 million and the \$35 million from the First Amendment Deed are expected to be fully utilised on the Cross City Tunnel Project. Final expenditure will not be confirmed until all project change orders are negotiated and all actions required by the project deed and conditions of approval are complete.

3. **Could you explain the November 2002 Economic Services report, in which Ms Legaspi wrote that under the RTA traffic minus-5 per cent CCM was close to being in default? Also in the report to the Director Finance, Ms Legaspi wrote:**

Running all the proposed scenarios simultaneously create model integrity problems with the CCM Model (ie, Target rates of return and debt covenants were not met).

So your unit, in running the CCM model, found that they were close to default, and their target rates of return and debt covenants were not met. With regard to your testing of their model, in November 2002 you concluded, "They are close to being in default. Their target rates of return and debt covenants were not met, and any further reduction will not meet debt covenants as well." Did you not have cause to be absolutely terrified by this bid, and as to whether the consortium would achieve the traffic that it was working on and be able to meet its debt requirements? (pp 67-8)

The RTA assumes the document referred to is a 3 page memo dated 15 November 2002 to Acting General Manager, Economic Services and the Director Finance which refers to proposals received from CCM. This memo was produced to parliament by RTA and the RTA understands it is available to the public through the Clerk of Parliaments.

The question does not accurately describe the contents of the memo. The memo did **not** state "under the RTA traffic minus-5 per cent, CCM was close to being in default." Firstly, the memo analyses CCM traffic projections, not RTA traffic projections. Secondly, the relevant reduction was 10% and not 5%. Thirdly, the statement has been taken out of context.

One item in a schedule of hypothetical scenarios RTA modelled, stated that if a 10% reduction in traffic occurred (not 5%), "Target IRR is not met (only 15.8% achieved). Any further reduction would not meet debt covenants *as well*".[emphasis added]. That is to say a 10% reduction in traffic would not provide CCM with both an equity return of 16% and satisfy debt covenants.

The risk that CCM may not achieve the profits it had projected (i.e. the equity internal rate of return (IRR)) was a matter for CCM investors. Although the risk lay with CCM, RTA was not concerned that CCM would be unable to fully repay its debt over the term of the loan. If the equity IRR was zero, then the debt would be repaid. If the equity IRR was an estimated equity IRR of 15.8%, the traffic reduction would need to be very significant before CCM was unable to repay its debt.