

## Variable Operation Payments

The M3 Clonee-Kells and N18 Limerick Tunnel PPP Contracts both provide for Variable Operation Payments (VOPs). The VOP mechanism, also referred to as “Traffic Guarantee payments”, is unique to these two PPP Toll Concession Contracts and arises in circumstances where actual traffic volumes do not reach the threshold volumes that are specified in the respective PPP contracts.

The VOP mechanism reflects the specific challenges and risks that faced the private sector in the delivery of the two major infrastructure schemes concerned. In the case of the Limerick Tunnel, the project faced particular significant construction risks relating to (a) the nature and extent of the tunnel works under the River Shannon and (b) significant uncertainty in relation to the extent of a Limerick city centre traffic management strategy that was to be implemented and the consequences of the planned measures in terms of traffic outcomes. This uncertainty caused particular difficulties for forecasting traffic volumes using the tunnel.

In relation to the M3 Clonee-Kells scheme, the major challenge for the private sector was the quantum of debt that had to be raised in order to fund the construction of what was at that time the largest road construction project undertaken in the State.

Clearly, TII wished to avoid these risks being reflected in a higher bid price/debt pricing for the full concession lengths of the projects and consequently implemented the VOP mechanism on the schemes as a means to reduce, in part, the risk profile of the projects. From the perspective of the bidders, who have significant debt servicing obligations in relation to the debt raised for the schemes, the VOP mechanism ensures that a minimum level of project revenue is guaranteed in any year.

Details of the Variable Operation Payments by year since the schemes opened to traffic in 2010 are provided in the following table.

### Variable Operation Payments\*

Year	Limerick Tunnel (€'m)	Clonee Kells (€'m)
2010	0.0	00.0
2011	3.63	1.56
2012	7.02*	2.16
2013	2.94*	2.67
2014	5.07	2.47
2015	4.90	2.00
2016	4.58	1.19
2017	4.21	0.39
2018	3.97	0.00
2019	3.90	0.00
2020	6.99	2.37

\*Amounts are exclusive of VAT

- *\*2012 figure includes €2.3m prepayment of 2013 VOP (thus 2013 figure correspondingly decreases by €2.3m).*
- *The figures are presented on a cash-flow basis.*
- *VOPs are anticipated to be made on the Limerick Tunnel for most of the remaining concession period.*
- *While there were no VOPs on M3 Clonee-Kells in 2018 and 2019, owing to COVID-19 restrictions and the impact on traffic, VOPs have resumed on the M3 Clonee-Kells Scheme in 2020.*
- *The reduction in toll revenues due to COVID-19 gives rise to an increase in VOPs on both.*

## **Revenue Share and Insurance Risk Sharing**

PPP Toll Concession Contracts also include Revenue Sharing provisions. This provides that where traffic volumes exceed traffic threshold values (which are specific to each contract) TII receives payments from the PPP Co. The revenue share arrangements protect against windfall gains to the private sector. In addition to the revenue share arrangements, TII also receives payments from insurance risk sharing arrangements included in PPP Contracts.

Further information in relation to TII's tolling activities, including the M3 and N18 schemes, is provided in TII's Annual Reports and Accounts which are available in the Library section of our website.

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