

## 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
2021	9.84	3.18
2022	6.24	(0.083)**

- *\*The 2012 figure includes a €2.3m prepayment of 2013 VOP; the 2013 figure reflects a corresponding decrease of €2.3m.*
- *\*\*The end-of-year VOP reconciliation calculation in 2021 resulted in a refund to TII in 2022.*
- *Figures are presented on a cash-flow basis and exclude VAT.*
- *Due to COVID-19 restrictions VOPs on both schemes increased in 2020 and 2021.*
- *VOPs are anticipated to be paid on the Limerick Tunnel scheme for most of the remaining concession period. It is not anticipated that further VOPS will be paid on the Clonee-Kells scheme.*

## Revenue Share

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.

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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