

## INVITATION

### TO PARTICIPATE IN THE TENDER PROCESS FOR THE CONCESSION OF ROUTES USE OF THE PUBLIC TRANSPORT SYSTEM FOR THE CITY OF SANTIAGO – TRANSANTIAGO

The Ministry of Transport and Telecommunications (MTT) of the Government of Chile and the Foreign Investment Promotion Agency, InvestChile, are inviting companies operating public transport, bus manufacturers and the financial sector around the world to participate in the tender process for the Concession of Routes of the Public Transport System of Passengers for the City of Santiago - Transantiago (hereinafter Transport System).

The MTT and InvestChile are looking for national and/or international companies that, whether on their own or jointly, have the experience, technical capacity and financial strength to invest in the operation of bus transport services.

The tendering process for the Transport System offers the industry and the financial sector long-term business opportunities, with attractive investment conditions and high volumes of vehicle sales.

#### I. The Public Transport System of the City of Santiago and its figures

Since 2007, the Public Transport System in Santiago includes all the urban public transport buses of the city, operated by different private companies, Metro de Santiago subway system, and the Alameda-NOS urban train, through a means of electronic access called the bip! card.

The Transport System operates within an area of 2,353 km<sup>2</sup> of the Greater Santiago ("Gran Santiago") plus the communes Puente Alto and San Bernardo, covering an urban area of approximately 680 km<sup>2</sup> and 6.48 million inhabitants.

Currently, the Transport System has 379 bus routes operated by approximately 6,550 buses. At the same time, the urban train Alameda-NOS has 23 km of tracks. Furthermore, Metro has 103 km of tracks in 5 lines with 108 stations and will soon add two lines: Line 6 and Line 3, which will provide 37 km of new coverage between 2017 and 2018.

Bus transport services are currently provided by seven concession companies, which run about 459 million km per year on a road network length of approximately 2,821 km.

The Transport System serves close to 4.8 million users<sup>1</sup> on a monthly basis, recording approximately 1.03 billion journeys<sup>2</sup> and 1.553 billion transactions<sup>3</sup> in 2016. In that same period, the bus system recorded 881 million transactions, averaging 2.9 million transactions every working day, which are equivalent to 56.7% of the total transactions of the System.

The Transport System generates revenue through the collection of fares paid by users and a subsidy granted by the State of Chile. In 2016, the collection of fares and subsidiaries totaled approximately USD 1.5 billion. The breakdown of this total was the following: 66.4% in the payment for bus transportation services, 25.9% in the Metro service and 7.7% in other complementary services.

## II. Revamping Transantiago

One of the main objectives of the MTT is to have an efficient, safe and high-quality Transport System. In order to reach this objective, during the second half of 2015, the MTT began a process for the overall review and assessment of the operation of the Transport System and its different Concessions of Route Use, and Provision of Complementary Services according to the provisions of article 3 of Law No. 18,696.

To carry out the initiative for reviewing and improving the Transport System, the Technical Secretariat for Strategy and Planning (STEP) of the Board of Metropolitan Public Transport was formed. This organization is responsible for studying and redefining the relevant elements of passenger transport as well as the bidding process for the concession for routes use and the provision of necessary complementary services.

In order to guarantee the continuity of the services and to satisfy the transportation needs of the users, the bidding process for the Concession of Routes Use that the Transport System requires for its revamping and optimum operation is described below.

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<sup>1</sup> Estimated value from the number of bip! cards used at least once per month.

<sup>2</sup> The value of the fare is equivalent to one journey (USD1,12). A journey has a maximum of three stages (two transfers) allowed within a maximum period of two hours, not using the same service in the same direction. Only one of those three stages can involve the use of the Metro.

<sup>3</sup> Every time a user approaches their bip! card to a validator in order to record their stages, a transaction or validation is recorded, and the validator emits a beeping sound (hence the name of the bip! card).

### III. Tender process for the Concession of Routes Use

Of the seven companies or Business Units currently operating in the Transport System, four of them (Units 1, 4, 6 and 7) will be tendered during 2017, due to their contracts being close to expiration. These companies represent 47% of the total of the System and cover a total of 2,855 operating buses.

BUSINESS UNIT	PROVIDER	COUNTRY OF ORIGIN	CONTRACTED FLEET (# OF BUSES)	CONTRACT EXPIRATION
N°1	Inversiones Alsacia S.A	Colombia	685	Oct 22, 2018
N°2	Subus Chile S.A.	Colombia	1219	Oct 22, 2020
N°3	Buses Vule S.A.	Chile	1118	Nov 24, 2021
N°4	Express de Santiago Uno S.A.	Colombia	1187	Oct 22, 2018
N°5	Metbus S.A.	Chile	875	Oct 22, 2018 <sup>4</sup>
N°6	Redbus Urbano S.A.	Francia	599	May 31, 2018
N°7	Servicios de Transporte de Personas S.A.	Chile	384	May 31, 2018

For this bidding process, the four Business Units to be tendered will become six new Business Units with an estimated fleet size between 530 and 560 buses.

Interested transport operators should offer a number of buses complying with local regulations regarding pollutant emissions (Euro VI or EPA2010)<sup>5</sup> and the functional and dimensional standard allowed<sup>6</sup>, and they should satisfy the levels of service required by means of an Operational Program defined in terms of frequency, regularity and capacity of passengers by period and direction of the services, which will be known by the bidders when applying.

The bus fleet of the bidder may be new or used, not exceeding 5 years of average age and not exceeding 7 years for each bus. Companies that are awarded the tender must have a minimum of 15 electric buses and 15 buses with Special Attributes, meaning those vehicles that incorporate features that are additional to the

<sup>4</sup> The contract of this company contemplates an extension of its concession period for the installation of filters. Consequently, the services covered by this Business Unit will be tendered in a second stage.

<sup>5</sup> Supreme Decree No. 130/2201 Establishing Emission Standards for Carbon Monoxide (CO), Total Hydrocarbons (HCTs), Non-Methane Hydrocarbons (HCNMs), Methane (CH<sub>4</sub>), Nitrogen Oxides (NO<sub>x</sub>) and Particulate Matter For Engines of Public Transport Buses for the city of Santiago. <https://www.leychile.cl/Navegar?idNorma=195386> (in Spanish).

<sup>6</sup> Supreme Decree No. 122/1991, Establishing Dimensional and Functional Requirements for Vehicles that provide Urban Collective Transport Services. <https://www.leychile.cl/Navegar?idNorma=9612> (in Spanish).

minimum required, such as air conditioning, low floor, emission technology that exceeds the standard required by current regulations or a greater number of seats.

The bidders should also incorporate a set of tools to reduce evasion, having a minimum of "mobile prepaid zones", tourniquets on their new buses and personnel that aid in the control of evasion.

#### **IV. Economic Conditions that stand out as an investment opportunity**

The future concession contracts include incentives and obligations that stand out as low-risk investment opportunities that, at the same time, allow for the provision of better services for users of the Santiago Public Transport System:

- Bus transport operators will be able to join the Transport System for 10 years, the duration of the concession.
- The contracts signed will demand an efficient and high-quality operation standard in return for a payment per km (PK) linked to a good performance (ICFP), a payment per passenger transported (PPT) and a payment per fleet (PCF).
- The business model will establish clear rules, whose orientation is to cover part of the direct costs, to reduce the exposure to risk in case of significant changes in demand, independent from the capital costs related to the purchase of buses.
- We seek to maintain the economic balance of the companies through regular payments and to link their profits to their excellence and good performance with the users of the Transport System.
- Private operators will be able to monetize their business by accessing monetary incentives (discounts and bonuses) for providing better quality services (ICI) in relation to their regularity indexes (ICR), their quality of care during the journey (ICA), stopping at bus stops when requested (IDP) and the condition and quality of their vehicles (ICV).



- $PPT_T$**  : Amount of payment per passenger transported corresponding to the balance for month  $T$ .
- $q_t$**  : Transactions entitled to payment in balance  $t$ .
- $PK_{j,T}$**  : Amount of payment per km corresponding to type  $j$  buses in month  $T$ .
- $km_{j,t}$**  : Commercial kilometers of type  $j$  buses entitled to payment in balance  $t$ , including kilometers for special services, support and 'injections'.
- $0,33 \times (kme_{j,t} + kma_{j,t})$**  : Additional payment for the commercial kilometers of special services and support carried out during the payment period corresponding to balance  $t$ , provided by type  $j$  buses, according to the provisions of Appendix 3 of this Concession Agreement.
- $ICFP_t$**  : Frequency & Passenger Capacity Compliance Index corresponding to balance  $t$ .
- $ICI_t$**  : Incentive or discount associated with the compliance of quality of service indicators that correspond to balance  $t$ , according to the provisions of Appendix 6 of this Concession Agreement.
- $PCF_t$**  : Payment associated with the amortization of the vehicle assets that the Concessionaire operates in this Concession Agreement in balance  $t$ . This will correspond to fifty percent (50%) of the monthly PCF. The value of the PCF corresponding to month  $T$  will be calculated using the UF value indicated in the Technical File, updated to the date of payment stated in paragraph 5.3.2.1. In case of non-assignment of rights, as set forth in paragraph 5.3.2.7, payment for this concept will only be made if ICFP compliance is equal to or greater than 50%.
- $Otros_t$**  : Other payments and adjustments to be made in balance  $t$ , in accordance with the provisions of this Concession Agreement.

- Future concessionaires may purchase movable and immovable property for the provision of services in the form of a low-risk "Provision Agreement". Said agreement constitutes a mechanism included in the concession agreement for route use, which allows the concessionaire to obtain the necessary goods (such as buses and terminals) for the provision of their services, which through a future declaration of the MTT will be recognized as of interest to the system, committing to the creation of the conditions for such an instrument to persist over time, even in the event of a change of operators.
- Thus, for example, the contracted transport operator is allowed to enter into a supply contract with the vehicle manufacturer, being able to access goods however close they are to the end of their concession

while, at the same time, the suppliers of vehicles have a guarantee for the payment of the associated credits.

- In the tender process for the Concession of Routes Use 2017, bus companies that are awarded the contracts will need to acquire approximately 3,000 new buses between years 2018 and 2021.
- The process also incorporates incentives to Payment per km and a longer lifespan for vehicles that are more efficient and clean than diesel vehicles.

## V. Timeline

Below is the detail of deadlines and relevant milestones for the upcoming tenders of the Public Transport System of Passengers for the City of Santiago - Transantiago:

TENDERS	MILESTONES	2017			2018			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4
CONCESSION OF ROUTES	Check Tender <sup>7</sup> with CGR <sup>8</sup>							
	Call for tender							
	Preparation of Offers							
	Q & A							
	Opening, Evaluation and Awarding							
	Start of operation of the services							

## VI. Contacts

Mr. Eric Martín González | Secretaria de Estrategia y Planificación [redisenio.contacto@dtpm.gob.cl](mailto:redisenio.contacto@dtpm.gob.cl)

<sup>7</sup> Conditions of Tender.

<sup>8</sup> The Comptroller General of the Republic of Chile is the supreme organ of control of the Administration of the State of Chile.