



REGIONE AUTÒNOMA DE SARDIGNA
REGIONE AUTONOMA DELLA SARDEGNA

Call for tender for public maritime services – lines in
connection between Sardinia and minor islands of La
Maddalena and San Pietro.
Economic regulation highlights

Cagliari, 01/08/2024



The presentation focuses on salient regulatory features of the tender at stake:

- Consistency with EU and national legal framework;
- Coherence to provisions set by National Transport Regulation Authority (ART);
- Aiming at combining equity with enforcement of competition and respect of state aid rules.

Economic regulation highlights: Introduction

(II)



- List of topics
 - 1. Risk sharing
 - 2. Costs and Revenues dynamics – general criteria
 - 3. Calculation of remunerable capital value
 - 4. Eligibility of maintenance costs
 - 5. Equivalence between passive rental fees and fixed (owned) assets
 - 6. Economic-financial equilibrium assessment



Risk sharing (I): ratio

GOAL: introduction to a fair risk share between contracting entity (CE) and economic operator (EO), by taking the following assumptions:

- (i) Investment incentives rely on a fair combination between **risk** and **return of capital values**.
- (ii) In the context of cabotage subject to public service obligation, operational risks connected to the **different contracted services are not necessarily compensated through WACC**, since this is equal for all.
- (iii) The notion of risk is «one to one»: that means losses in case of less favourable ex post costs/demand or extra profits otherwise.
- (iv) This makes risk sharing between the parts **physiologically fair** and **tending to symmetry**.
- (v) It is fair charging on EO risks associated with **normal operational conditions** in the relevant market - such as market fluctuations, cost variations etc. - that can be easily counterbalanced during contract lifetime or easily managed by an economic operator capable of an average efficiency level



Risk sharing (II): how

Which risks:

- (i) Regulation shall create incentives to efficiency for EO by granting an additional **profit sharing for lower costs, service provided being equal.**
- (ii) Costs or revenues variations depending from external factors not imputable to an efficient EO are charged on the CE, while it's on the EO the risk connected to inefficiencies which is responsible for.

Cfr. risk matrix



Cost- Revenues Dynamics– general criteria

- **1. Revenues**
- a) The EO will declare in the Economical-Financial Plan (EFP) its expected revenues per year, equal to expected traffic demand for all the duration of the contract, with tariff set by CE being constant;
- b) in the EFP of the offerent, the CE's traffic revenues estimation is set to +2% per year with tariff being constant during the whole contract period;
- c) 40% of revenues from on board services is not computed in remuneration, while the remaining part is destined for covering common costs of contracted services and the commercial leverage from transported passengers.

- **2. Costs**
- a) In the offer in EFP , costs are assumed to be constant for all the duration of the contract;
- b) In the offer in EFP of the EO costs are not considered new investments;
- c) Recovery of inflation and variation in costs and revenues reported in the final balance – see eligibility rules in the risk matrix (Annex Gamma) - and other new investments agreed with CE will be accounted in the EFP assessment planned at the end of each regulatory period (see Annex Alpha).



Calculation of remunerable capital value (I)

- a) The «book evaluation criterion» for fixed assets should be overcome, since doesn't allow the return of real original cost of purchasing;
- b) The procedure foresees two alternative estimation methods:
- 1) revaluation of **historical cost** with IBS index ((revaluation index of capital goods), starting from the year of purchase until the year of the tender;
 - 2) **current cost accounting** method.

Calculation of remunerable capital value(II): Revaluation of *historical cost of asset*



- a) **To calculate the Historical Revaluated Cost (HRC)**, the gross book value minus any legal revaluation, is multiplied by the aggregate deflator including the years from the one of purchase till 2023 (2000-2023 deflator being equal to 1,43861);
- b) Revaluated sinking fund is subtracted from HRC;
- c=a-b): net HRC as the **base value of fixed assets allocated in the EFP**.
- d) In case of renewal of the fixed assets, the procedure is doubled in two steps:
 - (i) The first until the year of the renewal;
 - (ii) The second from that year on, with capitalization of cost and extension of the economic life

Calculation of remunerable capital value(III): current cost accounting method



- a) The benchmark **is the cost** of a newly-built ship having same or similar tender requirements;
- b) From a) is subtracted the value of the sinking fund that, given its economic life, would have been relevant if the ship had had the same age as the one owned by the EO;
- c=a-b) gives **the replacement cost** of a new ship respect the one in use;
- d) finally, the base value of fixed assets (see previous slide) is subtracted from c to get the **net replacement cost**

Calculation of remunerable capital value(IV) - Conclusions



- In the tender at stake the EOs can either select one method or the other;
- The second method is the one selected for the EFP of the CE, since is the one on trend in the more advanced regulatory practices in case of revaluation of fixed assets affected by technological progress.



Maintenance costs

- a) Ordinary and extraordinary maintenance costs is eligible for **foreseen interventions** indicated in the EO's offer in the EFP;
- b) **Any additional maintenance cost occurred during the contract and not mentioned in the EFP won't be eligible**
- c) Ordinary programmed maintenance costs is considered as a running cost;
- (d) Discounted cost of extraordinary maintenance foreseen in the EFP is converted into capital as higher value of owned fixed assets, and two-thirds (2/3) amortized in annual installments for the whole contract period;
- e) **Above criteria for maintenance costs are equally applied to owned and rented ships;**
- f) **Extraordinary maintenance cost for rented boat is on owner's charge and deducted from the rental fee.**

Elegibility of passive rental fees



- a) The duration of passive rent contracts has to be \geq to the contract period.
- b) Annual fees are set as the sum of amortisation plus the return of capital for the owner, equal to WACC set by the National Transport Authority multiplied by the value of the rented asset (including the capitalisation of extraordinary maintenance);
- c) In order to consider annual rental fees eligible, the value of rented asset cannot exceed the value calculated according to the previous slides;
- d) It follows that - with condition and features of the ship being equal - the cost in use for rented and owned boats is pretty much equal.

Economic-financial equilibrium assessment at the end of each regulatory period



To sum up, the assessment methodology:

- a) Redrafts foreseen costs and revenues backwards and compare them with the values resulting in the final balance;
- b) Identifies eligible shifts in cost and revenues values, allocating them to EO according the risk matrix and Annex Alpha;
- c) The delta between the original forecast in EFP and the final, updated one determines evidence of the overcompensation or undercompensation to be adjusted in the next regulatory period;
- d) The assessment brings out the revision of the EFP of next regulatory period with the positive or negative adjustments to compensation of the previous period

See annex Alpha