

FRAMEWORK AGREEMENT TO SUPPORT EIB ADVISORY SERVICES ACTIVITIES LOT 3 - TRANSPORT

JASPERS - SUPPORT TO IMPLEMENTATION OF PUBLIC SERVICE CONTRACTS

MECHANISM FOR INTRODUCING NEW TECHNOLOGIES IN A CITY, AND IMPLICATIONS FOR THE PUBLIC SERVICE CONTRACT

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1

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Agenda

Using state resources for passenger transportation

Awarding a Public Service Contract

New technologies via Capex

New technologies via Opex

Planning the technological shift



Using state resources for passenger transportation

Court of Justice, Case Altmark (2003)

Service compensation does not constitute State aid within the meaning of Article 107 of the Treaty provided that four cumulative criteria are met:

1. the recipient undertaking must actually have public service obligations to discharge, and the obligations must be clearly defined;
2. the parameters on the basis of which the compensation is calculated must be established in advance in an objective and transparent manner.
3. the compensation must not exceed what is necessary to cover all or part of the costs incurred in the discharge of the public service obligations, taking into account the relevant receipts and a reasonable profit.
4. where the undertaking that is to discharge public service obligations, in a specific case, is not chosen pursuant to a public procurement procedure which would allow for the selection of the tenderer capable of providing those services at the least cost to the community, the level of compensation needed must be determined on the basis of an analysis of the costs that a typical undertaking, well run and adequately provided with the relevant means, would have incurred.

Where those criteria are not fulfilled and the general conditions for the applicability of Article 107(1) of the Treaty are met, public service compensation constitutes State aid and is subject to Articles 93, 106, 107 and 108 of the Treaty

Source: COMMISSION DECISION of 20.12.2011 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest

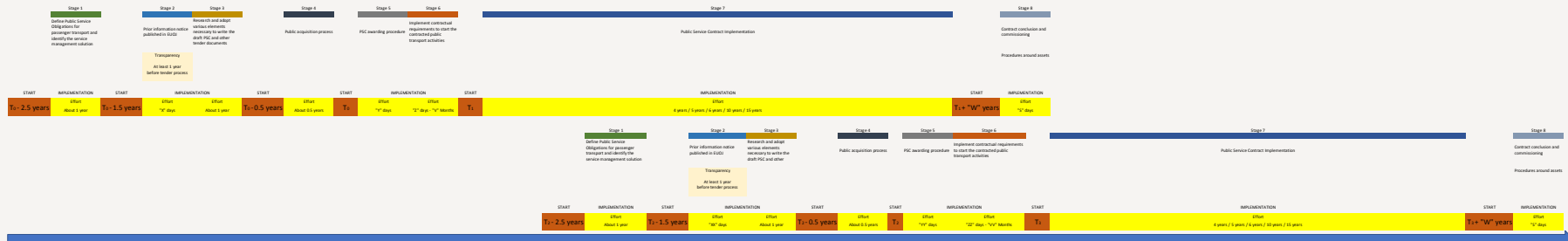
Awarding a Public Service Contract (1/2)

EU Regulation 1370/2007

- Where a competent authority decides to grant the operator of its choice an exclusive right and/or compensation, of whatever nature, in return for the discharge of public service obligations, it shall do so within the framework of a public service contract.
- Public service obligations which aim at establishing maximum tariffs for all passengers or for certain categories of passenger may also be the subject of general rules. In accordance with the principles set out in Articles 4 and 6 and in the Annex, the competent authority shall compensate the public service operators for the net financial effect, positive or negative, on costs incurred and revenues generated in complying with the tariff obligations established through general rules in a way that prevents overcompensation. This shall be so notwithstanding the right of competent authorities to integrate public service obligations establishing maximum tariffs in public service contracts

Awarding a Public Service Contract (2/2)

Public Service Contracts awarded by Competitive procedure Life-cycle



New technologies via CapEx (1/2)

Technology as a capital expense allows a company to:

- > Own the equipment (freedom to upgrade or alter the technology; master the maintenance program);
- > Control the technology over the life-cycle (freedom to recycle or refurbish the equipment);
- > Access capital investment grants (EU non-reimbursable funds, national & regional grants, other international grants)

New technologies via CapEx (2/2)

Buying equipment incorporating new technology asks for:

- > Good information over technological challenges (e.g. writing terms of references, budgeting maintenance processes, designing and building the proper infrastructure);
- > Master the recycling and decommissioning processes;
- > Access to important capital resources or present a solid bank financing solution;
- > Reaching the right compromise between financing instruction's requirement and own operational needs.

New technologies via OpEx (1/2)

Some inherent difficulties with capital spending on technology can include:

- › Large amounts of cash required;
- › Error-prone guesswork to estimate future needs for equipment and maintenance capacity;
- › Lengthy and arduous processes to estimate budget and get it approved;
- › Once the technology is purchased, the company is stuck with it – despite technology advancements or changes in company growth;

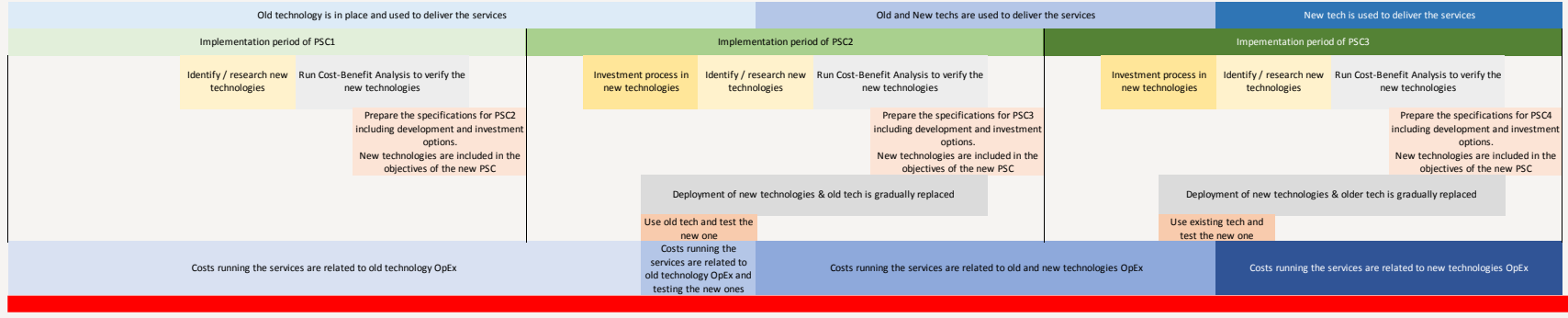
New technologies via OpEx (2/2)

Technology as an operating expense allows a company to:

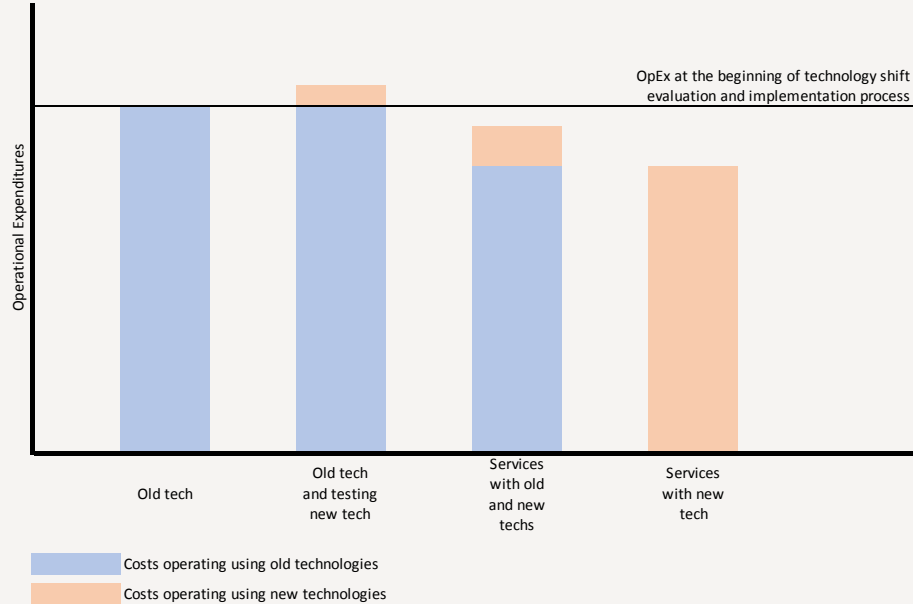
- › Shift the technology risks to suppliers as the new systems are 'rented' for a limited period with options for replacement;
- › Pay only for the capacity it needs at the moment and scale as requirements change;
- › Ease and speed up the budgeting process because short-term spending requirements are less;
- › Make multiple investments across the business since capital isn't tied up in large upfront expenditures;
- › Fund expenses faster through operations rather than needing to borrow money or divert money from other projects to pay for large, upfront technology costs;
- › Smooth out cash flows over time instead of requiring lumpy outlays;

Planning the technological shift (1/2)

Technology Shift Process and OpEx impact



Planning the technological shift (2/2)



Expected impact over the PSC OpEx budget of introducing new technologies

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