

# Sustainable Tariffs, Investments and the Concessions Directive

PRESENTED TO

1st European Forum on  
Regulation of Water Services  
(EFRWS)

PRESENTED BY

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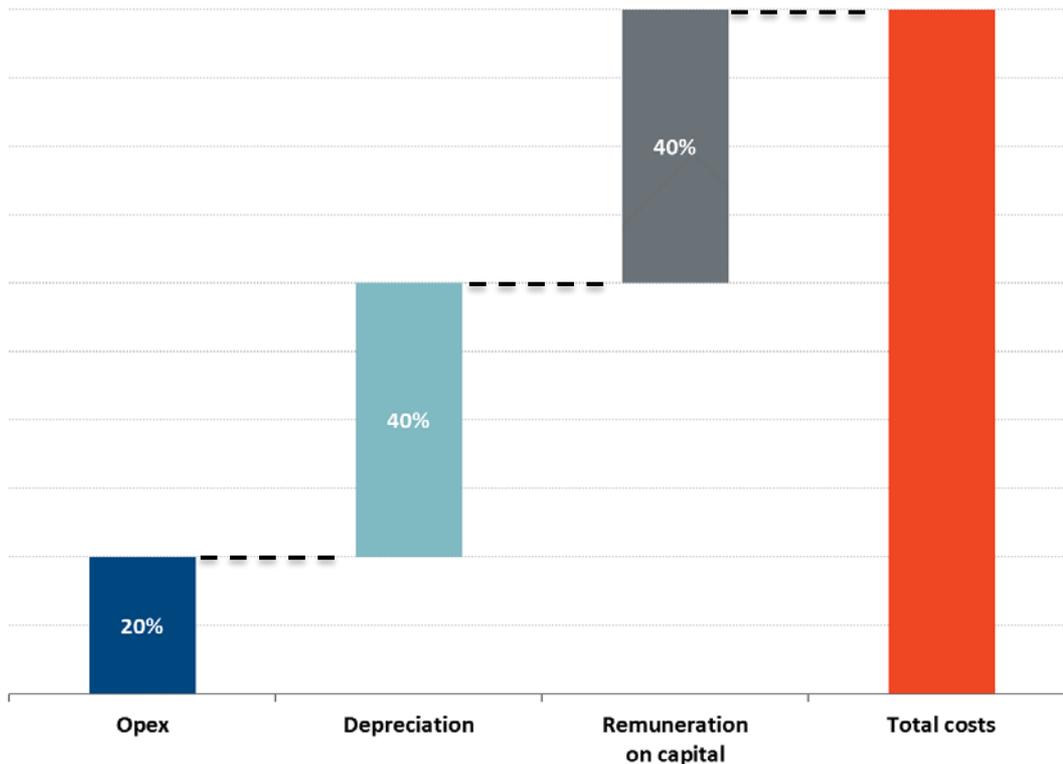
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THE **Brattle** GROUP

# Executive Summary

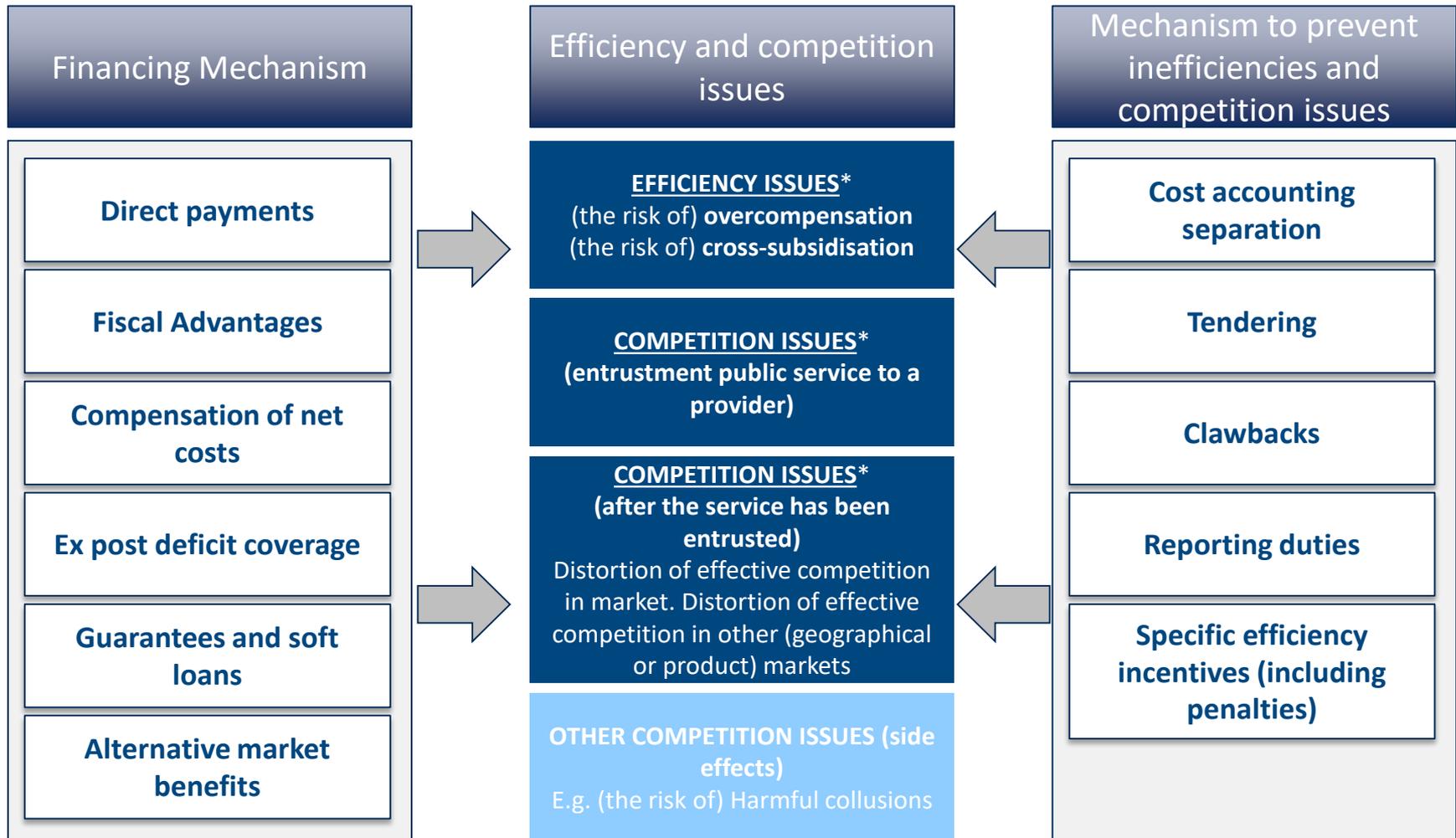
- Water and wastewater services use capital-intensive infrastructures. Investments funding might result in unsustainable tariffs, or would require financial support from the State
- A viable solution could require – where feasible – to apply the general principles of the European Treaty contained in the “Altmark” decision
- Efficient public service providers can apply socially sustainable tariffs, and recover missed revenues through an extension of the concession
- The Concession Directive and decisions of the European Commission on prolongations of concessions of member states have clearly stated such general principles
- The extension has to be properly calculated such to avoid overcompensation and to ensure proper investments funding in presence of low socially sustainable tariffs

# Investments Funding



- Capital costs (depreciation and remuneration on capital) represent the majority of the total costs of providing services requiring capital intensive infrastructures
- Costs can be funded from the State, or from tariffs
- Large investment plans can imply unsustainable levels of tariffs

# Financing mechanisms, efficiency and competition issues

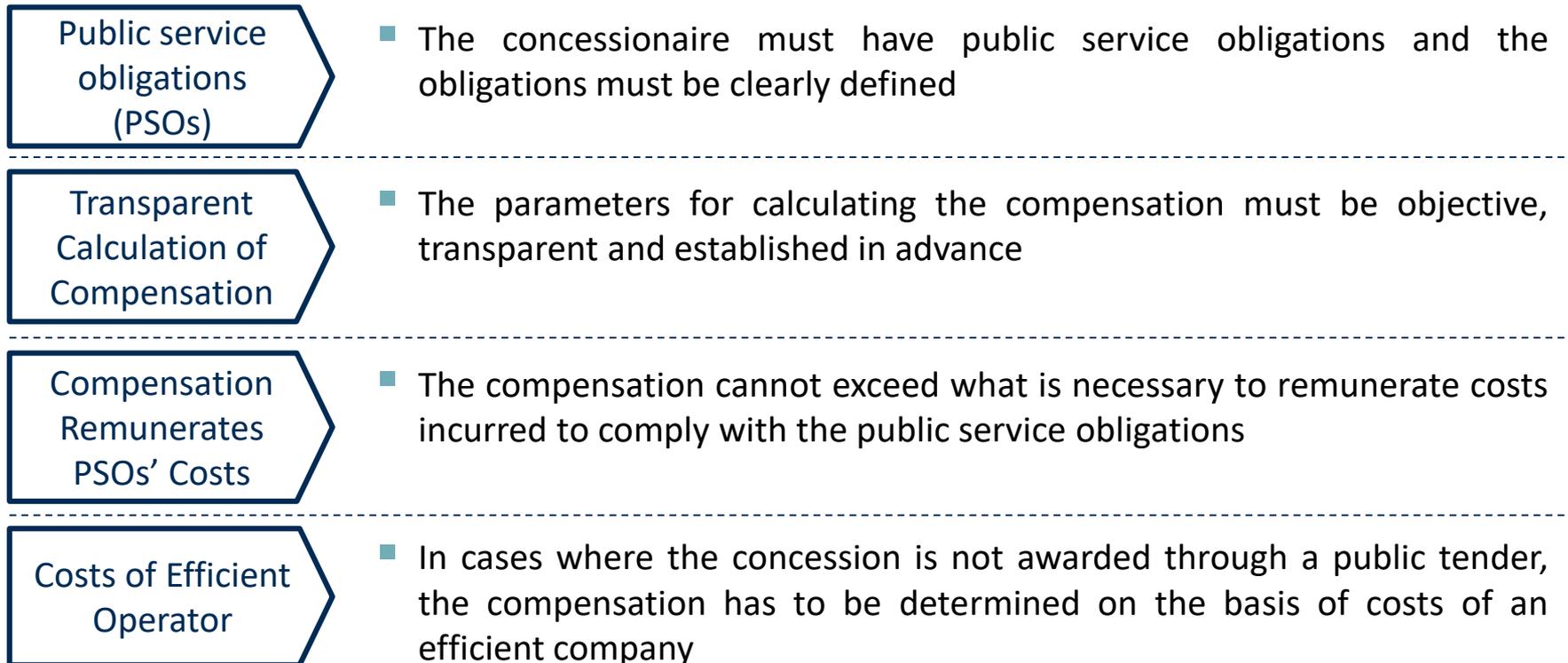


(\*) Please note that the efficiency and competition issues sometimes overlap.

Source: Ecorys, Study on the financing models for public services in the EU and their impact on competition

# The “Altmark” Principles

- In its 2003 Altmark judgement, the European Court of Justice held that public service compensation does not constitute State aid when four cumulative conditions are met:



**Based on decisions of the European Commission, when the four Altmark conditions are simultaneously met extension of concessions is a viable compensation mechanism compliant with State Aid regulation**

# Selected Examples

## Toll Roads in France (2014)

- In 2014 the EU Commission approved the Toll Road Development Plan proposed by the French Government: extension of toll road concessions by 2-6 years (depending on the concession), while capping tariff increase to inflation
- This allowed the realization of investments totaling €3.2 billion

## Toll Roads in Croatia (2018)

- In 2018 the EU Commission raised no objections to the plan to extend concession of the Y toll road of Bina-Istra put forward by the Croatian Government
- The Plan unlocked new investments amounting to €165 million

## LNG Terminal in Lithuania (2013/2018)

- In November 2013, the Commission approved an aid scheme to support the construction and operation of LNG terminal at the Klaipėda seaport in Lithuania
- In June 2018, Lithuania notified the Commission that LITGAS, a liquefied gas supplier was entrusted with a public service obligation to ensure the supply of a mandatory quantity of LNG to the terminal in Klaipėda. The state would compensate all costs incurred for performing this public service obligation
- The Commission has approved this scheme for the period 2019-2024

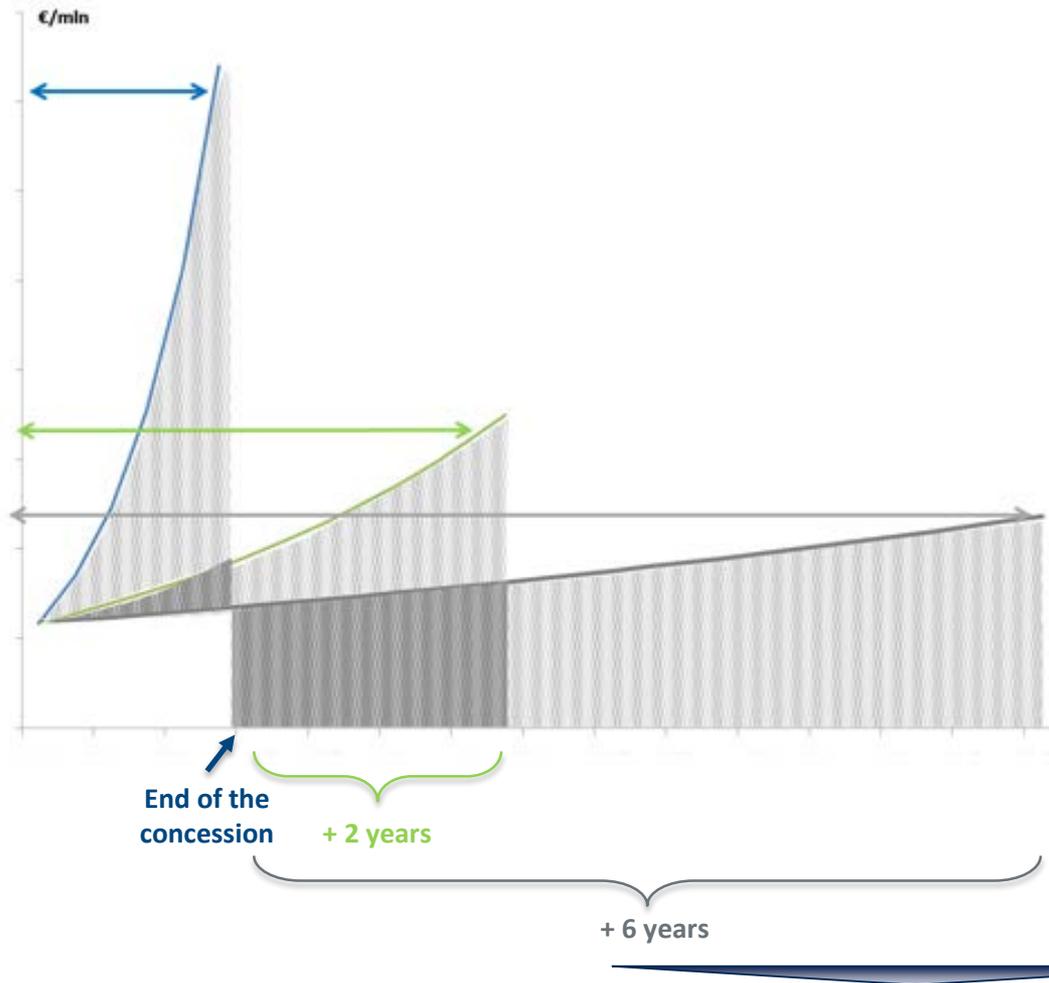
## Postal services in Italy (2019)

- In 2019 the EU Commission has approved under EU State aid rules a €171.74 million public service compensation granted by Italy to *Poste Italiane* for distributing, at reduced tariffs, newspapers and publications of book publishers and non-profit organizations in the period 2017-2019

# General Principles

- Efficient public service providers can apply socially sustainable tariffs, and recover missed revenues through an extension of the concession by applying – where feasible – the general principles of the European Treaty contained in the “Altmark” decision
- The Concession Directive and decisions of the European Commission on prolongations of concessions of member states have clearly stated such general principles for different sectors
- The extension has to be properly calculated such to avoid overcompensation and to ensure proper investments funding in presence of low socially sustainable tariffs

# Compensation Mechanism: Extension of the Concession



- Extension of the concession at no extra-profit for the concessionaire would allow remuneration of investments at socially sustainable tariffs
- The graph shows what would be the amount of yearly revenues required to remunerate needed investments under three assumptions on the duration of the concession
- The area below each curve represents, in Net Present Value, the same value. The slope of the curves represent the yearly increase in tariffs
- The graph shows that the shorter the concession, the higher the tariff increase required to remunerate investments

**Missing revenues from application of a socially sustainable tariff can be recovered through an extension of the concession**

# Conclusions

- Water and wastewater services use capital-intensive infrastructures. Investments funding might result in unsustainable tariffs, or would require financial support from the State
- Under Altmark conditions, a viable solution to the problem of funding significant investments at socially sustainable tariffs could be to extend concessions by the number of years required to allow investments' remuneration and avoid overcompensation
- Extension of concessions as compensating mechanism has been recently used in the toll road sector, where the European Commission has allowed extension of concessions in France and in Croatia