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Rolling-stock: how does regulation influence asset renewal and investment in rolling-stock?

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The influence of regulation on investment needs

Italian investment needs for PSO:

- Strong need for new or revamped rolling stock,
- Improving interoperability and technology

Main regulatory problems:

- Weakness and uncertainty of the regulatory framework that can hamper long-term investment
- Public resources availability affected by annual budget constraints
- Very limited financial resources of public transport authorities
- Bad design of tendering procedures

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The regionalization reform

D. Lgs. Nr. 422/1997: assignment of competences and resources for rail PSO to Regions and introduction of competition.
RU become service providers of Regions.

Objective: efficiency of rail public transport and rebalance among transport modes

- **Regions are competent for planning and management functions: administration and control of financial resources for services and investment**
- **minimum level of public services are defined**
- **Compulsory tendering procedures for PSO contracts (Regions can directly award only for a transitional period)**

but

- **Few Regions defined transport Region Plan, too often favoring road (bus) to rail**
- **Lack of synergy between bus and rail and consequent services overlapping**
- **Uncertainty of (low) public resources**
- **Few tenders and few competitors**

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The regulatory changes in 2009

- **Law Nr. 33/2009**:

"**minimum term for PSO contract**, not less than six years renewable for another six, to ensure multiannual planning of services and investments"

- **Law Nr. 99/2009**

According to the Regulation (EC) Nr. 1370/2007, Regions may choose to directly award PSO contracts

A new tool to define subsidies for PSO: the "**catalogue**" of services (possibility to reduce services in case of lower resources)

- **Better planning/scheduling of services and investment**
- **Greater transparency in RU/Regions contractual relations**

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Investment Plan with the new PSCs 2009 - 2014

Extending the minimum term of PSO contracts (6+6 years) allowed Trenitalia to plan an important investment programme for the following years

EMU Trains

DMU Trains

Vivalto Trains

New and revamped rolling stock	**2.150 M€**

This amount of investment could not be possible without an adequate duration of contracts and stable public resources by PTA

The new possible regulatory framework

- Some Regions announced they will not renew the current PSO contracts and are planning tendering procedures
- Government plans to modify legislation to promote competition also in Public transport

Taking into account that current PSCs expire at the end of 2014 how to manage the transitional period until the award of new PSCs?

Will the incumbent "simply" be forced to continue to provide public service Obligations on a "year by year" base with no certainty on duration and resource availability?

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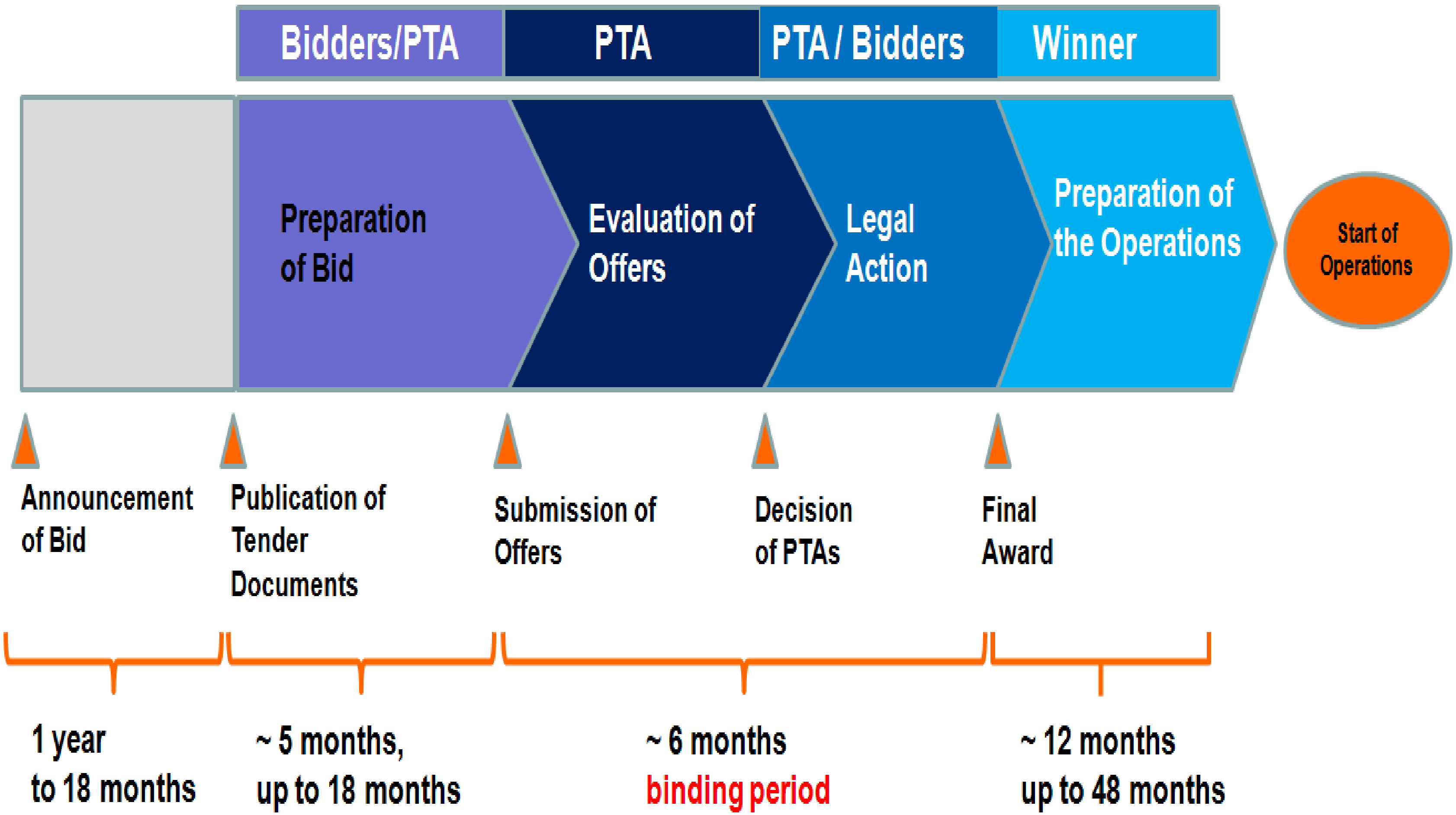
… the tender process can last up to 6 years



Future Investment plan: a proposal for the transitional period

It is possible to maintain the current production lines of new trains, which can deliver 3÷4 train/month for each kind of Rolling stock:

EMU Train

DMU Train

Vivalto Train

New PSO contracts can allow further investments, but markets may ensure loans only under certain conditions:

- **adequate duration of the contract (at least 5 years)**
- **Sufficient "credit rating" of the Public transport authority**
- **certainty and regularity of payment**

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four questions for the regulators

Scarse and uncertain resource for regional transport

The liberalisation process can need a long transitional period until the end of award procedures

A big investment plan for new rolling stock can require PSCs of long duration (even more than 10 years)

Italy liberalized also the most profitable market (High Speed)

Investments in rolling stock require stable financial flows. Which economic (and political) tools to secure public funding?

How to guarantee the renewal of rolling stock will not stopped?

How to reconcile this condition with the need of a fast liberalisation of the market?

Competitors are not required to contribute to PSO contracts. How to avoid cherry picking and ensure economic balance for all the rail sector?

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Thank you for your attention!