

Paris, 7 Dec 2016

## 7 Dec 2016 - Railway investments: Arafer's five recommendations

In order to control infrastructure manager SNCF Réseau's debt, the railway reform Act of 4 August 2014 introduced a framework governing the financing of railway development projects. The financial contribution of SNCF Réseau is conditional on its level of indebtedness. This "golden rule" voted by the legislator requires the railway infrastructure manager to not go into debt to finance new projects beyond a certain ratio.

The French rail & road regulatory body (Arafer) considers that the scope of application of this golden rule should be extended to include investments in the existing network if they are directly linked to the new high-speed lines.

The regulator also points out that the key issue in SNCF Réseau's investment policy is the rigorous selection of development projects and calls for investment choices to be based on the assessment of the socio-economic benefits of projects.

### DEVELOPMENT INVESTMENT, MAINTENANCE INVESTMENT

SNCF Réseau's investment framework introduced by the 2014 rail reform Act and complemented by the 2015 Macron Act in 2015 distinguishes two types of investment: development investment and maintenance investment.

- SNCF Réseau's participation in the financing of development investments is only possible if the ratio between the net financial debt and the operating margin does not exceed a ceiling set by law at 18. Failing this, projects can only be carried out if the State and regional authorities requesting them take charge of them in full.
- In order not to hamper the programme of maintenance and renewal of the existing network, maintenance investment is only governed by the provisions of the performance contract that will shortly be finalised for 10 years between the State and SNCF Réseau and which sets the infrastructure manager's financial plan.

### ARAFER'S 5 RECOMMENDATIONS

Arafer believes that changes must be made to the draft "golden rule" decree in order to fully comply with the objective of the rail reform Act: to control the indebtedness of SNCF Réseau. Therefore, the regulator recommends:

1. The broadening of the definition of development investment to include investment made on the existing network directly linked to the creation of a new line (connection to the existing network, upstream or downstream installation of a new line, etc.). These investments, which are

inseparable from the proposed new line, are intended to be fully borne by the public authorities in the event of the debt to operating margin ratio being exceeded by the legislator.

2. To determine criteria for linking large-scale network modernisation projects to either of the two investment categories, either because they lead to an increase in the capacity of the infrastructure or because they modify the original functionality, cannot be considered as maintenance.
3. To expressly specify the principle of application of the "golden rule" to the financing of development investment irrespective of how SNCF Réseau participates (direct responsibility, capital contribution to subsidiaries, etc.) or the set-up chosen to carry out the project (direct contracting, subsidiary, project company, etc.);
4. To provide for the eventually that projects validated before the entry into force of the text seeing a change in the share of SNCF Réseau's contribution, the increase in this contribution would be subject to further examination in the light of the "golden rule". Finally, in the event that the deadline clause, three years after the signing of the performance contract between the State and SNCF Réseau, would lead to a renewal of SNCF's debt by the State, to review the level of the ratio of debt to operating margin, now set at 18, in order to maintain the debt management effort of the infrastructure manager.
5. Finally, the regulator stresses, and above all, that the "golden rule" is an exclusively financial device that applies irrespective of the quality of the projects. It is therefore important to carry out rigorous investment selection for the railway network, according to their socio-economic benefits.

The contract finalised between the State and SNCF Réseau will have to lay out provisions making it possible to establish the programming of these investments within the framework of a precise, documented and transparent investment plan.

- [See the opinion published on December 7, 2016](#) (in French).

#### **About Arafer**

**Since 2010, the French railway sector has had an independent regulatory body which accompanies its gradual opening to competition. The "Macron" Act of 6 August 2015 extends the powers of the regulator to road activities: coach transport and motorways.**

**On 15 October 2015, the rail regulatory body became the rail and road regulatory body (Arafer). Its mission is to contribute to the efficient operation of the public service and competitive activities for the benefit of rail and road transport customers. Its public opinions and decisions are adopted by a group composed of seven independent members chosen due to their expertise in railway, road, legal or economic matters or because of their expertise in competition matters and has been chaired since August 2016 by Bernard Roman.**