

Methodological guidelines for drafting the EFP

1. Characteristics and purpose of EFP templates

The regulatory economic and financial plan (EFP) is the planning document for the management of the awarded transport service, which includes the temporal development of income statement, balance sheet and financial data during the term of the public service contract (PSC). The EFP is an operational tool that takes on different characteristics and functions depending on: i) the chosen method of award (tendering procedure, direct award/award to internal operators); ii) the stage of the procedure in which it is used (preliminary to the procedure, tender, contract term); iii) the party responsible for its preparation (awarding entity, tender participant, and contracting company).

In case of contracts awarded by tendering procedure, the EFP is defined by the awarding entity during the preparatory phase before the initiation of the procedure, in order to determine the tender price. In this case, it takes the form of a simulated EFP (SEFP), and the valuation of the items in the template is estimated by considering the contractual objectives pursued — including the implementation of investments—, historical performance (if any) of previous management, as reported by the incumbent to the awarding entity, national and international benchmarks conducted with respect to medium-sized companies operating in the sector or comparable entities, managed efficiently and with an organisational structure capable of ensuring the full performance of the service, as well as costs of reference as determined by the Authority pursuant to Article 7 (1) of Legislative Decree no. 201/2022.

The EA also takes into account the prices of production factors at the time of drafting the SEFP, as well as their expected evolution, including in relation to expected or planned inflation over the contractual term. With the implementation of regulatory accounting¹, the AE will also have access to a substantial database to define reference parameters, potentially differentiated by relevant company clusters, which will be useful for preparing SEFPs for upcoming contracts, in relation only to the eligible items for regulatory purposes.

It should be highlighted that the structure of the SEFP and its valuation must reflect the organizational characteristics of the new management and not be a mere replication of previous ones. Furthermore, although the current regulation does not permit the AE to publish the detailed valuation of the SEFP items within the tender documentation, it is essential that the AE discloses the assumptions made to assess the individual EFP items and determine the calculation of the contract compensation (e.g., leasing a warehouse vs. owning it), in order to minimize potential cost asymmetries among the participants in the tendering procedure.

This particularly applies to assets classified as essential and indispensable following the consultation under Measure 4 of decision no. 154/2019, for which the AE identifies the purchase methods and associated costs, in line with Measure 7 of Decision no. 154/2019, ensuring their representation in the appropriate sections of the SEFP. In other words, the SEFP must always be prepared in such a way as to ensure a level playing field among tender participants, especially between the incumbent and new entrants. The organizational and managerial characteristics of each participant will then influence any reductions in the tender price, based on the efficiencies that can be achieved in the SEFP items as valued.

After the publication of the tender documentation, during the same procedure, the participating companies prepare — based on the schedules provided by the AE in accordance with ART’s templates — a tender EFP (TEFP) for the submission of their tender. To demonstrate the economic and financial sustainability of their offer, the tender participants (TP) determine the TEFP value in relation to the scope of the tendered service. This is based on costs previously incurred in the operation of the same or similar activity, or costs expected

¹ Following the extraordinary (for 2017-2021) and ordinary (2022) collection of regulatory accounting data, as provided by decision no. 154/2019 (as amended by decision no. 113/2021).

to be incurred based on the characteristics of the service. They also provide estimates for the evolution of these costs over the contract term, factoring in the expected/planned inflation for the period. The TEFP prepared by the successful bidder becomes the contract EFP (attached to the contract) and will serve as the reference document for comparison with updated EFPs at the end of the regulatory period during the verification of the economic and financial equilibrium.

Through the TEFP, drawn up in accordance with the instructions provided by the AE based on these methodological guidelines, each TP proves the economic and financial sustainability of its tender, particularly through Template 4 (see below) which provides details on the financing methods for capital expenditures, as well as the financial stability, understood as the temporal correlation between these expenditure and their corresponding financing.

Furthermore, during the execution of the contract, the EFP serves as a monitoring tool for both the AE and the contracting company (CC), enabling oversight of the economic and financial management of the award, including enhancements in service efficiency and effectiveness.

In the case of direct awards or awards to internal operators, the SEFP aims to determine the compensation for the PSC — taking into account, *inter alia*, the reference costs established by the Authority (see above)— and to verify, in advance, the sustainability of the management and, throughout the contractual term, the maintenance of the economic and financial equilibrium of the PSC for its entire duration.

Compared to the methods outlined above in relation to the awards through tendering procedure, the SEFPs in the case of direct award or award to internal operators result from negotiations with the contracting company (CC), which may provide objective elements to assist the AE in determining the value of the items referred to in ART’s templates, also taking into account the EFPs related to previously awarded contracts.

In general, the SEFP aims to determine the necessary contractual compensation to cover the operational and capital costs (including a reasonable profit) that are admissible and attributable to the public service obligations (PSO), once the costs generated from fulfilling the PSO have been deducted. Compared to the statutory financial statements (and regulatory accounting), only certain items are admissible for regulatory purposes, based on the principles and criteria specified below.

Furthermore, as outlined above, the SEFP is primarily prepared by the AE, which, due to the a.m. information asymmetry, may not always have sufficient data to compile the schemes with the level of detail required for regulatory accounting. The regulatory accounting items derive directly from the company's analytical accounting, making them easier to reconstruct. In this context, the full implementation of regulatory accounting (cf. note no. 1) will provide the AEs with a substantial, detailed, and comprehensive database to support the preparation of the SEFP for future contracts, incorporating specific benchmark values/indicators developed by the Authority.

In particular, Templates 1 through 3 (“Regulatory income statement”, “Regulatory balance sheet and determination of reasonable profit”, “Determination of compensation”, respectively) are used by both the AE to determine the tender price and by the TP to calculate the economic offer; the latter also uses Template 4 (“Regulatory Financial Statement”). Templates 1 through 3 make up the SEFP, while templates 1 through 4 the TEFP. These templates are broken down: i) for all the years of the award, ii) for each awarding lot and iii) for each mode of transport, in accordance with measure 22 (5)².

The purpose of Template 1 is to calculate the share of costs related to the core business (operating costs + depreciation) that are incurred to comply with PSO, which are not covered by revenues (including positive network effects³) arising from the provision of the transport service.

² Concerning rail services, where the non-competitive award includes the temporary operation of car services as an alternative/addition to rail services until these are awarded by public tendering procedures, in accordance with Article 34 (g) of Legislative Decree 179/2012, taking into account the principles of transparency and efficiency underlying Measure 14 and the entire Title II, including the regulatory accounting measures, it is also necessary to present a separate EFP.

³ Cf. p. 2 (2) of the Annex to Regulation (EC) No. 1370/2007 and its interpretative guidelines (see COM 2014/C 92/01 of 29/03/2014, §§ 2.4.1 e 2.4.2).

The purpose of Template 2 is to determine the regulatory net invested capital (NIC) for the application of the WACC set by the Authority, to calculate the reasonable profit.

The purpose of Template 3 is to determine the compensation (variable, fixed or "effective", as outlined below) through the results of the application of Templates 1 and 2, and the ensuing verification of the equilibrium.

Template 4, to be filled in by the TP, is for assessment of the development of the financial position during the PSC period, in particular in cases where the contract includes investments to be borne by the CC.

2. Eligibility and reporting criteria of income statement and balance sheet items

The eligibility of income statement and balance sheet items for the determination of the contractual compensation is subject to the compliance — by both the AE upon definition of the SEFP and the TP upon submission of its offer through the same templates — with the following principles:

- **relevance:** allocation of items to the provision of the transport service, as defined in the tender notice and incorporated into the PSC;
- **congruity:** adequate quantification with respect to the contractual scope. The adequacy is assessed by the AE considering the contractual objectives pursued, including the implementation of investments, the historical performance of previous management as reported by the incumbent, as well as benchmarks conducted with respect to medium-sized companies operating in the sector or comparable entities, managed efficiently and with an organisational structure capable of ensuring full performance of the service. It also takes into account the prices of production factors at the time of drafting the SEFP, as well as their potential evolution, including in relation to the planned/expected inflation over the contract period;
- **accrual:** attribution to the financial year in which they are/will be charged during the contract period;
- **separation:** detailed and separate representation of the components of individual items, including any sub-items identified within ART's templates and additional specifications which are deemed significant by the AE and/or CC, as well as activities not covered by the contract (such as other PSC or liberalized services);
- **comparability of values:** the values reported in ART's templates must be comparable both over time, including through the application of consistent drivers and calculation/estimation methodologies throughout the contract period, and with those recorded in the corresponding items of the regulatory accounting templates under ART's regulation;
- **allocation to the statutory financial statement and data verification:** by the CC, the correlation of the values entered in the EFP to the corresponding values in the statutory financial statement for the relevant financial year, as can be verified during the assessment of the economic and financial equilibrium. This includes *ad hoc* reconciliation conducted annually, in accordance with the application of regulatory accounting obligations and accounting separation under the Authority's regulation (below), subject to the specific eligibility criteria and limitations outlined hereafter.

3. Determination of operating costs and revenues

The items of operating costs attributable to the fulfilment of the PSO defined in the tender documents/PSC are identified in accordance with the cost items specified in Article 4 (1) (c) of Regulation No. 1370/2007, as detailed below:

- *cost of staff;*
- *cost of energy;*
- *infrastructure charges;*
- *cost for maintenance and repair of public transport vehicles;*
- *cost for rolling stock and installations necessary for the operation of passenger transport services;*
- *fixed costs.*

They must be aligned with the corresponding cost items of the income statement nomenclature in the financial statements, as outlined in Article 2425 of the Civil Code, namely:

B) Cost of production

- 6) for raw materials, consumables and goods;*
- 7) for services;*
- 8) for use of third-party assets;*
- 9) for personnel;*
- 10) depreciation and impairment (only for depreciation, items B10) (a) and (b) given the exclusion of impairments of any nature from eligible costs, cf. above);*
- 11) changes in stock of raw materials, consumables and goods;*
- 12) provisions for risks (limited to the part of the related funds used, if relevant, to be accounted for under the corresponding cost items);*
- 13) other provisions (to be entered using the same methods as those outlined in the previous point);*
- 14) other operating costs.*

Entities adopting the international IAS/IAFR accounting standards shall align them with those in the income statement template that has been prepared in accordance with IAS 1:

- *raw materials and consumables;*
- *cost of personnel;*
- *other operating costs (broken down by costs of services, costs for the use of third-party assets, other operating costs);*
- *depreciation;*
- *provisions and impairment.*

The costs reported must be strictly necessary and functional to the fulfilment of the PSO outlined in the tender/PSC documents and, in the case of (indirect or general) costs related to common functions, to the part of relevant shared costs allocated based on specific drivers⁴.

Regarding the eligibility and methods of representing production costs under item B of the statutory financial statement, some interpretative clarifications are required as outlined below.

The first aspect to consider is the item "for raw materials, consumables and goods" which in Template 1 is entered based on the consumption relevant to the financial year in question. In the statutory financial statement, these are represented by purchase costs, adjusted for changes in the stock of "raw materials, consumables, and goods", with increases or decreases depending on whether there is a negative or positive balance. Additionally, the costs attributable to traction must be clearly outlined and separated, with a differentiation between the various sources used (fuel, electricity⁵, and, if applicable, hydrogen).

Secondly, attention is drawn to the item "costs for third-party services" which in ART's templates is broken down into detailed sub-items such as "costs for access and use of infrastructure" and "maintenance services for rolling stock." The latter refers to "ordinary" activities and includes costs related to outsourced activities aimed solely at maintaining or restoring the functionality of rolling stock and any equipment essential to it (e.g., safety equipment).

With regard to the costs for the "use of third-party assets", this category includes, for example, the rental/lease fees for rolling stock used in the operation of services within the contractual scope — unless the option is made to enter them in the balance sheet, provided they meet the criteria set out under the

⁴ Identification of drivers for the allocation of common costs in accordance with the Authority's decisions. For rail services, reference is made to Decision 120/2018, and for road services to Measure 12 of this regulatory act.

⁵ With regard to rail transport, the regulatory accounting statements defined by the Authority under decision no. 120/2018 require the inclusion of costs for electric rail traction among the costs for third-party services. However, for the EFP, this item must instead be entered under consumption, as outlined in the relevant formats.

accounting principles, which will be discussed below—along with the costs related to the rental of equipment necessary for the activity.

The item "staff" includes both the costs related to staff involved in operations and those employed in maintenance activities, which are reported separately. These should be listed as sub-items to highlight, in particular, the proportion of costs associated with more directly operational personnel. The item "other" includes all other costs related to employees.

The item "staff" includes both the costs associated with personnel involved in operations and those employed in maintenance activities, which are reported separately. They should be listed as sub-items to specifically highlight the proportion of costs related to more directly operational personnel. The item "other" covers all other employee-related costs⁶.

The item "depreciation" includes the costs relevant to the specific year related solely to the self-financed part of the assets entered into the balance sheet items, broken down according to the categories identified in Template 1. The net book value of the assets entered into the balance sheet is therefore understood net of any public subsidies received for the acquisition of the asset, and depreciation should be calculated based on this value. Finally, the parts related to capitalized extraordinary maintenance are highlighted under a specific item.

The impairments referred to in item B) (10) (c) and (d) of Article 2425 of the Italian Civil Code are not considered relevant to the ordinary management of the service subject to PSO. Regarding provisions for funds related to the PSO, when applicable (as in the case of ordinary cyclical maintenance), these are entered under the item "use of funds" through the allocation of costs incurred over the years of provision to the fund. Finally, the item "other operating costs" covers a range of costs that do not fit into the previous categories, including, *inter alia*, general administrative expenses, and allowed taxes and duties.

The following is excluded from the scope of operating costs for regulatory purposes:

- **sanctions/penalties resulting from contract breaches and any compensations to users**, as these cannot be recognised to the company due to their irrelevance to the fulfilment of PSO;
- **financial charges** as they pertain to management other than the operational one;
- **tax charges**, except for local taxes (e.g. waste collection tax-TARI and municipal property tax- IMU), which may be included in the operating costs under the item "other charges". The regional tax on productive activities-IRAP is excluded from operating costs as it is considered part of the WACC T component, expressed before income taxes, and also included in the reasonable profit calculated before taxes;
- **provisions of any kind**, as only the actual use of the relevant funds is relevant (cf. above).
- **valuation adjustments to tangible and intangible fixed assets and other impairments/revaluations**, as these are attributed to extraordinary management.
- **other extraordinary charges**, or charges that, based on the relevance criterion, cannot be attributed to the ordinary production process of the activities.

As mentioned, some of the items listed above, although excluded from the scope of eligible items for the preparation of the EFP, **are entered into the regulatory accounting** for information and transparency purposes (e.g., other costs related to the payment of sanctions/penalties to the AE in accordance with the a.m. PSC).

⁶ With respect to rail transport, unlike the regulatory accounting statements under decision no. 120/2018, the item "staff" does not include "management costs," which should instead be included under the sub-item "other" within the "costs for services" item.

As for revenue, Regulation (EC) No. 1370/2007, unlike the case of costs, does not specify the details of the items. However, the items identified as eligible are consistent with the nomenclature outlined in Article 2425 of the Italian Civil Code:

A) Value of production

- 1) revenue from sales and services;*
- 5) other revenues and income, with separate indication of contributions for operating expenses.*

The changes in the stock of "in process, semi-finished, and finished products" (A2) and "in contract work in progress" (A3) are not included in the eligible items, while any "internally produced fixed assets" (A4) are included in the operating costs with an opposite sign to provide clearer and more transparent representation.

This last item is intended to include the costs incurred in the financial year attributable to the production (in progress) of fixed assets internally produced by the company. The self-production of fixed assets, whether tangible or intangible, primarily appears to be a residual case in this sector. Furthermore, since these assets cannot yet be considered part of the service production process, the related costs are not deemed eligible. These costs are therefore reversed and deferred until the assets are fully completed, at which point they will be included in the regulatory NIC (see below), generating the corresponding depreciation. Items A2 and A3, which refer respectively to i) products that will generate income in future periods and ii) works related to the production of goods and services for a certain client that have been completed but not yet settled, are not considered relevant to the production of transport services and, therefore, cannot be valued in relation to the corresponding production costs.

In the context of the value of production (item A, Article 2425 of the Civil Code), the primary focus has been on the revenues from sales and services (A1), referred to as "traffic revenues" due to their direct connection to the core activity of the companies in question and the main subject of the contracts.

These revenues primarily derive from the sale of tickets in various forms typical of road and rail services (single journeys, daily tickets, multi-day/weekly tickets, and monthly and annual season tickets). The estimation of traffic revenues (as per item A1 of the profit and loss account under Article 2425 of the Civil Code) is based on the charging system approved by the relevant authority (both existing and prospective, on the basis of any already known guidelines) and on the demand forecast models applied, as well as the operator's activities aimed at countering fare evasion/avoidance⁷. Therefore, upon preparation of the EFP, the assumed scenarios for the expected evolution of passenger numbers throughout the entire contract period shall be clearly outlined, along with the revenue changes on the basis of the pricing assumptions applied.

The item "other revenues" does not include the entry related to contributions for operating expenses paid by the awarding entities as compensation for the provision of the service subject to PSO, unlike what occurs in statutory financial statements and regulatory accounting templates, as this contribution represents, in the preparation of the SEFP, the **final result of the application of the templates rather than an input thereto**.

The item "other revenues and income" also includes all revenues related to the provision of services but not directly derived from tickets, such as, *inter alia*, those related to commercial activities, active rentals of rolling stock used for the service (where permitted under the contractual clauses), and reimbursements on excise duties. In this regard, it should be clarified that certain items, which are difficult to estimate during the construction of the SEFP by the AE due to their dependence on unpredictable events (e.g., penalties or sanctions imposed on users or insurance reimbursements received), shall be valued by the CC with an impact on the compensation, where applicable. This assessment should occur during the preparation of the final EFP at the end of the regulatory period, based on the final figures, and also during the preparation of the TEPF,

⁷ The AE may also provide a compensation for reduced tariffs and/or exemptions for certain user categories, to be included in the item "Traffic Revenues" (Format 1).

provided that these values can be estimated, even if based on historically recorded average annual values (e.g., in the case of the aforementioned contractual penalties).

In a separate item, any "positive network effects" resulting from the provision of the service subject to PSO, as referred to in point 2 of the Annex to Regulation (EC) No. 1370/2007, should instead be valued with a positive sign, particularly with regard to rail transport.

4. Identification of the net invested capital (NIC) and determination of the reasonable profit

The net invested capital (NIC) is determined by the algebraic sum of specific assets and liabilities in the balance sheet, reflecting the capital contributed by the company for providing the service under the public service contract. The WACC set by the Authority is applied to the NIC to calculate the reasonable profit margin. The parameters that constitute the ART's WACC cannot be modified thereafter, nor can they be extracted from the general formula to accommodate specific cases or contingency situations in order to represent deviations from the average market risk level, as this would undermine the integrity of the methodology used to determine the profit margin. However, the ART's WACC remains the reference value for the approach considered, as the AE, in the case of a direct award or award to internal operators, may, in agreement with the CC, establish rates of return on the NIC that differ from and are lower than the WACC. In competitive procedures, the possibility of lower offers for the NIC rate of return by tender participants may also be allowed.

With regard to its determination, the elements included in Template 2 of the a.m. decision no. 154/2019 correspond to the balance sheet items pursuant to Article 2424 of the Italian Civil Code:

Assets:

B) Fixed assets

I – Intangible fixed assets:

- 1) start-up and expansion costs;*
- 2) development costs;*
- 3) patent and intellectual property rights;*
- 4) concessions, licenses, trademarks and similar rights;*
- 7) other.*

II – Tangible fixed assets:

- 1) land and buildings;*
- 2) plant and machinery;*
- 3) industrial and commercial equipment;*
- 4) other assets;*

C) Current assets:

I - Stock:

- 1) raw materials, consumables and goods;*

II – Receivables, with separate indication, for each item, of the amounts due beyond the following financial year:

- 1) from customers;*
- 5-quater) from others*

Liabilities:

D) Payables, with separate indication, for each item, of the amounts due beyond the following financial year:

- 7) payables to suppliers;*

14) other payables.

In Template 2, only the items relevant to the formation of the NIC necessary for the implementation of the SGEI have been considered and therefore deemed suitable to contribute to the determination of the reasonable profit of the contracting company. In applying this criterion, the item "subscribed capital, unpaid" has been excluded from the regulatory assets, as it pertains to transactions between the company and its shareholders concerning equity formation, specifically, obligations undertaken (and not yet fulfilled) by the latter towards the former. Consequently, it is not attributable to strict operational activities.

On the other hand, the items "intangible fixed assets" and "tangible fixed assets" are considered admissible. With regard to the former, the items listed in the statement include capitalized costs related to intangible assets, specifically those classified under "patent and intellectual property rights" and "concessions, licenses, trademarks, and similar rights". Regarding item BI3, it appears that, in relation to the relevant activity, the costs primarily involve the acquisition (or development, though the latter is less common) of application software. In the second case, the costs primarily concern the acquisition of concessions for the exercise of activities carried out by the awarding entities (i.e., transport services) or on their property, as well as the costs related to licensing rights and trademarks.

The items related to multi-year expenses – items BI1 and BI2 – and goodwill, as per item BI5, are more difficult to link to the SGEI, both due to the challenge in determining the characteristics of the costs associated with them and because of the non-recurring nature of the expenditure. The costs under item BI1 refer to specific phases in the life of the company, such as start-up (start-up costs) or expansion of its production capacity, not so much in quantitative terms, but rather in relation to the extension of its scope of activity (development and expansion costs). Although these refer to the pre-operational phase of the company or to the expansion of its activities – circumstances that make it difficult to attribute these costs to the SGEI in question, given the market characteristics and the potential operators already engaged in established activities with equally stable structures – it still seems appropriate, in promoting an extensive interpretation of the criteria set by the Authority, to include item BI1 in Template 2, albeit limited to the start-up or expansion costs incurred in relation to the service being tendered.

Item BI2 refers to non-recurring activities related to the application of research or acquired knowledge for the development or improvement of new services. While it presents similar limits of application in the context under consideration, item BI2 has been included in Template 2 to account for any costs associated with the planning of new services, incurred to participate in awarding procedures for connections that were not previously served as incumbent.

The item "goodwill" – which refers to the valuation of a (quantifiable) quality of the company which is additional to the total value of its assets – has been excluded from the regulatory NIC both because of the non-operational nature of the cost and because of the conditions that must be met for it to be recognized as an intangible asset, including acquisition for consideration within the acquisition of a business or through transactions such as mergers, demergers, or contributions. It has not been included in Template 2 for reasons similar to those described for the multi-year costs above.

Further, the item "Assets under construction and payments on account" has not been considered in relation to both intangible and tangible fixed assets (cf. below), as it includes costs related to the creation of an asset for which full ownership of the right has not yet been acquired, or to advances to suppliers for assets that are not yet eligible for recognition in the financial statements. In both cases, the assets considered cannot yet be regarded as relevant to the service production process, and therefore the related costs are excluded from the NIC until the assets is fully realised.

Finally, item BI7 includes any capitalizable costs that do not fit into the preceding items, and for this reason it is less frequently applied in the specific context of determining the NIC, although it is provided as a residual item whose movements must, in any case, be justified in relation to the relevance of the related costs to the company's operational activity.

With regard to tangible fixed assets, item BII1 has been included in Template 2, albeit limited to the buildings used for the company's operations, generally related to maintenance activities and other essential structures, such as ticket and/or information offices.

The items "plant and machinery", "industrial and commercial equipment", and "other assets" are included in Template 2. In particular, the first category encompasses assets that make up the rolling stock used for the service, even if acquired through leasing. The possibility of accounting for the right of use under a leasing contract – which grants the right to control the use of a specified asset for a period of time in exchange for a consideration – in the balance sheet assets, along with the related depreciation in the income statement, is currently provided only for companies applying international accounting standards (cf. IFRS 16). However, from a regulatory perspective, this also applies to companies that adopt national accounting principles, provided the leasing/rental arrangement meets the characteristics outlined in IFRS 16. Also capitalized, and therefore included in this item, are improvements made to owned assets with a multi-year utility that result in an increase in value and/or an extension of their useful life. Item BII3 refers to equipment related to the service production process that complements the functional capacity of plant and machinery, particularly rolling stock, such as onboard equipment and safety devices. The residual item BII4 covers assets that cannot be classified under the previous categories but are instrumental to the business activity and provide utility over the years (e.g., personal computers and other IT equipment).

Assets are entered at their purchase cost, net of any capital grants, and increased by the costs incurred for capitalised works (extraordinary maintenance, revamping). The purchase or production cost cannot include anticipated but not yet actually incurred expenses, nor the related financial charges. Maintenance works that may be capitalised, include extraordinary interventions involving extensions, upgrading, replacements, and other asset improvements that result in a significant and measurable increase in capacity, productivity, or safety of the assets, leading to an increase in the residual book value or an extension of its useful life. Capitalisation is permitted for maintenance commonly referred to as "cyclical" within the railway transport sector, but only where it can be classified as extraordinary rather than ordinary maintenance based on the above criteria.

Similarly to the treatment of intangible assets, the item "Assets under construction and payments on account" is not considered for the determination of the NIC (see above).

Moreover, capitalised costs related to the item "financial fixed assets", whether referring to equity investments or financial receivables, are not taken into account for the determination of the NIC, as they relate to the financial rather than operational management of the company, in contrast to commercial receivables, which are recorded under current assets and are included in the items of Template 2 (see below).

With regard to current assets, the Authority has selected the items that are directly related to the operational activity pertaining to the transport service; the positive items "stock" and "receivables", with particular reference to the items "receivables from customers" and "receivables from others," and (with a negative sign) the item "payables to suppliers".

The stock valuation can be, in particular, related to the need to maintain stock levels exceeding annual consumption, for example, to ensure efficient and continuous operation of the service, such as in the case of spare parts for the maintenance of rolling stock used for the service. This is especially relevant when the maintenance is carried out internally, allowing for a swift restoration of operations in the event of breakdowns or damage, or to avoid price fluctuations, such as in case of purchase of fuel reserves.

Regarding receivables, further specification is provided through the reference to trade receivables in item CII1, while "receivables from awarding entities for deferred payments of the consideration" are recognised when deferred payment is stipulated in the public service contracts by the awarding entities, which generally represents a significant part of total revenue. Deferred payment can have a substantial impact on the company's cash flows and therefore, to address any application uncertainties, this item may also be valued on a forecast basis, within the limits specified below. Some examples of deferred payment scenarios are provided below:

Quarterly installments 30-day payment terms	1	2	3	4	5	6	7	8	9	10	11	12	Average annual receivables from AE
	values at the end of the month												
monthly amount due	100	100	100	100	100	100	100	100	100	100	100	100	200
invoice payment from AE				300			300			300			
receivables from AE	100	200	300	100	200	300	100	200	300	100	200	300	
Quarterly installments 60-day payment terms	1	2	3	4	5	6	7	8	9	10	11	12	Average annual receivables from AE
	values at the end of the month												
monthly amount due	100	100	100	100	100	100	100	100	100	100	100	100	275
invoice payment from AE					300			300			300		
receivables from AE	100	200	300	400	200	300	400	200	300	400	200	300	
Quarterly installments 90-day payment terms	1	2	3	4	5	6	7	8	9	10	11	12	Average annual receivables from AE
	values at the end of the month												
monthly amount due	100	100	100	100	100	100	100	100	100	100	100	100	350
invoice payment from AE						300			300			300	
receivables from AE	100	200	300	400	500	300	400	500	300	400	500	300	

Instead, the passenger usually purchases the service directly from the company, making the payment at the time of ticket issuance, including through apps or other platforms, and therefore does not generate receivables for the company from third parties.

The inclusion of "credit for prepaid taxes" and "deferred tax assets" in Template 2 does not appear to be relevant, as these items relate to current and deferred taxes. Specifically, item CII5-ter, along with the item in the liabilities "tax allocation reserve, including deferred taxes," pertains to the so-called deferred taxation concerning temporary differences between accounting and tax values, which are expected to reverse in subsequent years. Together with current taxes, deferred taxes contribute to determining the company's tax burden, but unlike receivables from entities, they are not part of the company's direct operational management. For this reason, they should not contribute to the determination of reasonable profit, confirming their exclusion from the calculation of the NIC. In line with their lack of relevance to operational activities, receivables from affiliated or controlled companies (items CII2-4) have been excluded as well.

Similarly to receivables, financial liabilities and debts (towards shareholders, banks, and other lenders), represented by debt securities, debts towards affiliated or controlled companies, tax liabilities, and social security debts, are not considered as deductions from the NIC. The residual item "other debts" is instead considered to include, with a negative sign, any debts related to operational management other than trade payables.

With regard to receivables and payables, in line with the criteria for determining the NIC and the regulatory approach applied by the Authority in other regulated sectors, and to ensure an appropriate valuation of the same capital, a **limit threshold** has been set **for trade receivables that are eligible for inclusion in the NIC, equal to 30% of the allowed regulatory costs under items 3 and 4 of Template 1**. This threshold also applies to trade payables. Therefore, any payables that qualify for inclusion in Template 2 but exceed the receivables (measured within the a.m. 30% limit) should not be accounted for. As a result, the value of receivables may be offset by payables, but the latter cannot negatively impact the value derived from the total costs related to assets and stock.

The B liability item "provisions for risks and charges", with particular reference to sub-item 4 "other," is relevant solely with respect to the use of the corresponding provisions. Therefore, for simplicity, any changes should be accounted for in the corresponding cost items of the income statement (e.g., use of provisions for ordinary cyclical maintenance not performed internally will be entered under "third-party services", sub-item "of which for outsourced maintenance").

Finally, the items related to Accruals and Deferrals (both assets and liabilities) should also be excluded from the calculation of the NIC, as these represent entries related to the misalignment between accrual accounting and financial manifestation. This is because the preparation of the EFP should be done on an accrual basis, assuming a matching financial manifestation, and any imbalance would be neutralised over the EFP period.

5. Determination of Compensation

Once the operating and capital costs (including the reasonable profit) have been determined based on the principles and criteria described above, and the revenues related to services subject to PSO have been

deducted, all required elements for determining the compensation in accordance with Template 3 of Appendix 5 of decision no. 154/2019 are available.

However, for the application of Template 3, there is also a need for further clarification of the steps leading to the determination of compensation, particularly regarding the different options available to the AE: variable, constant, and the so-called "actual" compensation. In the case of variable compensation, the AE considers the result obtained from the application of Templates 1–3, which may vary over the entire duration of the contract based on the projection of the values of the different items over the contract period. An additional option available to the EA is to determine a constant compensation for the entire contract term. This requires calculating an instalment by discounting the total variable compensations (using the Authority's WACC as a discount rate), ensuring compliance with the equilibrium requirement, which mandates that the net present value of the sum of notional items equals zero. These notional items are determined annually by deducting the variable compensation derived from the application of Template 3 from the constant compensation. In this case, too, the discount rate corresponds to ART's WACC. Another option available to the AEs is the possibility of using values other than the variable compensation calculated for each year of the contract (and the constant compensation), based on specific needs of the AE, which must be duly described and justified. This applies particularly when the availability of resources does not align financially with the requirements identified through the application of the EFP Templates. This option is allowed, similarly to the determination of constant compensation, only if the equilibrium requirement is met, with the net present value of the notional items being zero, thereby ensuring the financial neutrality of the operation throughout the contract period.

6. Preparation of the financial statements

The financial statements shall report *“amount and composition of cash [...] and cash equivalents [...] and the financial flows of the period arising from operations, investments, and financing activities, including transactions with shareholders”* (Article 2425b of Civil Code), which, in the case of the tender EFP, shall be noted to highlight the changes throughout the contract period. The financial statement is particularly relevant in the case of significant investments, as it highlights the consistency between sources and uses of funds, both quantitatively and temporally. In any case, the financial statement is a tool that allows to identify potential financial imbalances in management. Considering the objectives and preparation methods of the tender EFP, with regard to the determination of the operating result through the application of the WACC, a direct-method based scheme has been chosen, which is more suited to the assessments required from the TP for the submission of the tender (OIC accounting principle no. 10). This is accompanied by specific items related to initial/final available cash, debt service, cash flow for debt service, as well as financial indices such as DSCR and LLCR.

7. Comparison between EFP result, standard cost and efficient cost

As specified above, the regulatory measures under decision no. 154/2019 stipulate that the contractual compensation shall be determined by the AE through the application of Templates 1-3 of the SEFP, taking into account costs (including the reasonable profit margin) and revenues (including the network effects).

However, national legislation, in particular Article 27 (8-bis) of Decree-Law no 50/2017⁸, provides that *“standard costs [...] shall be used by the entities awarding local and regional public transport services as a reference to quantify economic compensations and tender prices , [...], as may be adjusted to take into account the specific service and the objectives of the local authorities in terms of service planning and promotion of efficiency in the sector”*. In this regard, the standard cost is intended to serve its "micro" purpose.

It follows that the standard cost should not be applied indiscriminately by the AE for determining the compensation for services subject to PSO. Instead, it should be used exclusively as a reference point, with

⁸ Decree-law no 50 of 24 April 2017 “Urgent financial measures, initiatives in favour of local authorities, additional measures for areas affected by seismic events, and measures for development”.

appropriate adjustments made in consideration of the specific nature of the awarded services, as evidenced by objective data, and of the efficiency objectives that the AE aims to achieve with the contract⁹.

This approach aligns with the explanatory report of decision no. 120/2018, which compares the standard cost methodology with the efficient cost methodology (specifically applied to rail transport services). It is noted that, while the standard cost is derived from a linear regression method aimed at estimating an average cost, the efficient operating cost is based on a more sophisticated benchmarking approach that identifies the cost on the so-called efficient cost frontier. This methodology is better suited for establishing dynamic efficiency objectives over time.

Once the compensation has been determined through ART’s schemes, it can be compared, by appropriately selecting the items from the EFP and determining the unit cost for the service, with the value obtained from applying the standard cost for the specific mode. The aim is to identify and highlight any differences between the two values. For this purpose, it is essential to consider the different cost structure defined in the aforementioned Ministerial Decree no. 157/2018¹⁰, which intends to identify and remunerate the factors used in the provision of the service, as specified below:

- **industrial production costs** (direct materials and goods, direct labour, indirect industrial costs for materials, assets, and labour, depreciation, etc.);
- **general costs** (commercial, arising from compensation for corporate bodies and general management, association fees, administrative consultancy, costs for administrative activities and monitoring of services and their quality, including supporting information system, etc.);
- **fair remuneration of invested net capital;**
- **non-deductible taxes and duties.**

On the other hand, the costs for access charges and use of infrastructure and related services are not considered, except for the costs for traction electricity consumption, which have been taken into account.

The decree does not specify the valuation of detailed items; therefore, they cannot be compared with any detailed values resulting from the EFP but are included in the final result. Accordingly, they cannot be replaced or adapted within the definition of the standard unit cost for “micro” purposes.

With regard to road and rail services, in order to determine a unit cost derived from the EFP that can be compared with the standard cost, it is necessary to make appropriate adjustments to the value of the item “total operating costs generated by the fulfilment of PSO” in Template 1 of the EFP, as specified below:

- deducting infrastructure access costs not considered in the calculation of the standard cost;
- adding the depreciation amounts related solely to rolling stock (including those related to investments in technology and capitalised maintenance);
- adding the reasonable profit;
- dividing the result of the previous operations by the train-km/bus-km covered by the contract.

For railway services only, in order to compare the result of the EFP with the efficient cost derived from the application of decision no. 120/2018, taking into account the percentage of efficiency recovery, the steps involve the following:

- deducting the infrastructure access costs from the “total operating costs generated by the fulfilment of PSO” in Template 1 of the EFP;
- dividing the result of the previous operation by the train-km covered by the award.

⁹ cf. judgement of the Regional Administrative Court of Lazio no. 2732/2019 of 1st March 2019.

¹⁰ Ministerial decree no. 157 of 28 March 2018 “Determination of standard costs for local and regional public transport services, and of the related criteria for updating and application”.