The evolution of traffic and its impact on the sustainability of Concession Projects

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ΤΕΧΝΙΚΟ ΕΠΙΜΕΛΗΤΗΡΙΟ ΕΛΛΑΔΟΣ

Διημερίδα
Έργα Μεταφορικών Υποδομών ως Μοχλός Ανάκαμψης και Ανάπτυξης της Ελληνικής Οικονομίας

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Contents

- Risk Allocation and Traffic Risk
- Traffic performance and financial crisis
- Traffic Forecast
- Traffic and Project sustainability
- Bankability issues
- Conclusion

Aegean Motorway Northern part of Athens - Thessaloniki connection
Risk allocation

**Generally:**
- No standard allocation
- But accepted practice
- Differs in the detail

**Challenges:**
- Public sector understanding of risk and risk allocation
- Traffic Risk
- Financing

**Public sector generally:**
- No concept of risk
- No systems to quantify/monitor the cost of risk
- No “Risk” element in traditional public procurement

- **Benefit of PPP’s – Risks are explicitly dealt with**
- **Cost of PPPs have to be lower than tradit. procurement if cost and time overruns are taken into account**
## Risk allocation

<table>
<thead>
<tr>
<th></th>
<th>Public</th>
<th>Private</th>
<th>Shared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue/Traffic</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Construction (Final Cost)</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Availability / Performance</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Currency</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Design &amp; Building Permit</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>Land Expropriation</td>
<td></td>
<td>X</td>
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<tr>
<td>Utility relocation/Archeology</td>
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<td>X</td>
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<tr>
<td>Operations &amp; Maintenance</td>
<td></td>
<td>X</td>
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<tr>
<td>Financing</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Contract Termination</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Change in Law</td>
<td>X</td>
<td></td>
<td>X</td>
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</tbody>
</table>

*Risk allocation should meet objectives of a bankable project and not dreams*
Traffic Risk

Nowadays Nobody wants it

- Empirical evidence shows that forecasts are demonstrably generally over optimistic (this has been the case all around the world)
- Accuracy is often the exception

In addition

- Traffic evolution goes hand in hand with economic development
- The state of many economies in Europe deteriorates
- General economic environment becomes more unstable

Appetite of the private sector and Lenders for taking traffic and revenue risk has significantly reduced
The financial crisis in Greece lead to a toll road traffic reduction of 50% (twice the loss of national GDP)

Restructuring of a concession project requires a long term bankable solution
Traffic Forecast

- Traffic models have been in use for over 50 years, however no improvement in accuracy was detected.

- They remain crude and incomplete simplifications of real life individual decision making about travel.

- Traffic models have become very complex creatures that very few people understand.

- Forecasts made on behalf of banks are usually more conservative (Downside case).

Accepting the results of a traffic forecast means answering with “yes” to 4-5 simple questions (“pub test”).
<table>
<thead>
<tr>
<th>Traffic and Project sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Construction</strong></td>
</tr>
<tr>
<td>• Toll revenue is part of the project budget (10% - 20%)</td>
</tr>
<tr>
<td>• Mitigation measures in case of underperformance</td>
</tr>
<tr>
<td><strong>Ramp Up</strong></td>
</tr>
<tr>
<td>• Toll revenue growth critical for meeting DSCR in early years after project completion</td>
</tr>
<tr>
<td><strong>Regular Operation</strong></td>
</tr>
<tr>
<td>• Long term development affects ability of debt and equity repayment (Lenders downside risk/equity upside opportunity)</td>
</tr>
</tbody>
</table>
Exposure to traffic and revenue risk is clearly important, but it must be set within the wider context.
Conclusion

✓ Traffic forecasting requires high attention

✓ Traffic forecast critical for making or breaking a “traffic risk” project

✓ Traffic risk and country risk are the most prominent credit risks for the financing community

✓ Lenders have very limited appetite for traffic risk projects

✓ Acceptable gearing levels have reduced significantly after 2007

✓ Long term debt financing has become very difficult

✓ Involve the financing community early in the PPP process
Thank you for your attention!