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A NEW REGULATORY FOCUS – IMPACT ON CURRENT GAS REGULATION

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Overview

This paper is a follow-up of a paper on Europe's gas regulatory policy under the new energy paradigm.¹ We concluded that European gas regulation needs a new focus that more explicitly recognizes the producers' interests. This paper elaborates on this by analyzing the impact on the provisions emanating from the second Gas Directive of the newly proposed regulatory focus.

The current regulatory focus is up for revision because our previous research referred to above has shown that as a consequence of the emergence of the new energy paradigm, the current European gas regulation might run into difficulties in satisfying the energy policy goals (currently predominantly supply security and combating climate change). The most important reason for this observation is that current regulatory gas policy fails to sufficiently lower the hold-up problem, hereby obstructing much-needed future investments. More specifically, we have shown that for the European gas market: 1) the technical and economic characteristics create a lack of policy credibility which makes the hold-up problem very likely to occur; 2) the hold-up problem will not be completely removed; and 3) a policy that lowers hold-up as much as possible will inherently require a sufficiently pro-industry regulator. We have also argued that the current TPA exemptions regime that has been implemented to ensure sufficient and timely investments will not sufficiently lower hold-up.

Methods

Comparative dynamics. Confronting current regulation with the above insights, this paper analyzes the impact on the provisions of the current Gas Directives of implementing the proposed regulatory focus. It does so by comparing two possible development paths: continuation of the current focus and changing towards the new focus.

Results, conclusions

Continuing along the current regulatory path will result in significant problems with respect to satisfying the energy policy goals. Moreover, the new focus will fare significantly better in this regard. Hence, the overall conclusion will be that in order to satisfy the energy policy goals also under the new energy paradigm, a new focus, explicitly recognizing producer's interest, is vital.

References

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¹ Paper presented at the '07 IAEE-conference in Wellington, New Zealand (Spanjer, 2007). See also Spanjer (2006) which is based on, among others, Newbery (2000), Armstrong and Sappington (2005), Helm (2005), Levine et al. (2005), Teulings and Bovenberg (2006), and CIEP (2006).

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