Stefanie Kesting

TRANSMISSION NETWORK REGULATION IN THE EUROPEAN GAS MARKET – DISCUSSION OF ITS EFFECTIVENESS FOR A COMPETITIVE INTERNAL MARKET

Stefanie Kesting: KEMA Consulting GmbH, Kurt-Schumacher-Str. 8, 53113, Bonn, Germany
Phone.: +49 228 44690-53, Fax: +49 228 44690-99, Mobile: +49 173 259 0567,
e-mail: stefanie.kesting@kema.com

Note: The paper will be based upon the Author's Ph.D. thesis, which was awarded the "Preis Berliner Energieforum" of the German IAEE Section "Gesellschaft für Energiewissenschaft und Energiepolitik (GEE)" in November 2006.

Overview

European gas transmission network access regulation aims to create a situation where non-discriminatory network access leads to competition in the gas market; first in the European member states, and then on a European level. Thereby, competition is expected to be the superior market form to achieve benefits such as decreasing end consumer prices, efficiency gains, higher service standards and improved competitiveness of the European market (cf. EU Commission, 2003).

Regulatory interventions, especially on the transmission level, are regarded necessary because gas networks are categorized as network-typical natural monopolies. Furthermore, transmission networks perform a special role in the European gas market and regulatory measures are still under continuous development to make access to them open and non-discriminatory. On the other hand, regulatory processes are partly highly problematical and the still ongoing complaints about absent competition (e.g. EU Commission, 2005) raise the question of the effectiveness of the introduced regulatory regimes.

Against this background, the paper will critically discuss the influence of gas transmission network regulation on competition in the EU gas market.

Methods / Approach

Because of the bird's eye view at the entire approach to open up the European gas market for competition via the key instrument of (transmission) network access regulation, the author chooses a qualitative economic analysis.

(1) The paper starts with a brief descriptive overview of the transmission network access instruments and their expected role in the achievement of a competitive internal market.

(2) Besides other reasons, possible problems in the effectiveness of regulatory instruments with regard to competition in the gas market could be also caused by the way how competition is assessed. Therefore, the competition paradigms of the European policy are analyzed with the help of competition theory.

(3) Afterwards, the result from point (2) is compared to current network access regulation standards in the EU. With the help of economic theory it is investigated whether or not the concepts are well-matched and, after all, appropriate to be applied in the European gas market.

Results

(1) In spite of already strong interventions in the market and ongoing debate on further regulations (consider the current discussion on ownership unbundling) most European countries are lacking the expected competition effects.

(2) Second, it turns out that the expectation of competition in the gas market through the measure of transmission network access regulation is based upon the neo-classical competition concept. That is, competition is measured by theoretical criteria which imply some problems in practical application. These and further problems will be described for the gas market case.
(3) Finally, a gas market-specific analysis with the help of regulatory theory, the theory of natural monopoly and the identified neo-classical approach of the European Commission reveals that gas market-specific characteristics can lead to sustainable problems in the success of today's and further gas market reforms.

Conclusions

The idea to liberalize the European gas market and to introduce regulatory measures in order to enable competition is not impossible or wrong. It is, on the other hand, a substantial intervention to regulate a market, all the more when it turns out that some instruments already failed in the achievement of their expected effects, at least with regard to the superior goal of a European-wide competitive market.
Two issues appear to be essential for a realistic approach of further gas transmission network access regulation in a liberalized market environment. First, competition and competition paradigms / objectives should be (better) defined and identified by appropriate rather than neo-classical textbook criteria. Second, regulatory interventions should be checked in their analytical completeness and potential impact on the goals for whose sake they are / have been introduced.

References

EU Commission (2003): Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC, Brussels: European Union.
EU Commission (2005): Report on progress in creating the internal gas and electricity market : Technical annex to the report from the Commission to the Council and the European Parliament, Brussels: European Union, 15 November 2005.
Furubotn, Eirik G./Richter, Rudolf (2000): Institutions and economic theory : the contribution of the new institutional economics, Ann Arbor: The University of Michigan Press.
Jones, Christopher W. (2004): The internal energy market, Volume 1, Leuven: Claeys and Casteels.
Joskow, Paul L. (2005): Regulation of natural monopolies, draft paper of 16 April 2005 for: Polinsky, A.M./Shavell, S. (eds.): Handbook of Law and Economics, Amsterdam et. al.: Elsevier.
Kesting, Stefanie (2006) „Transmission network access regulation in the European gas market", Freiburger Studien zur Netzökonomie, Baden-Baden: Nomos.
Madrid-Forum (2002): A long-term vision of a fully operational single market for gas in Europe : a strategy paper, joint working group of the European gas regulatory forum, draft of 28 January 2002.
Marshall, Alfred (1890): Principles of economics, 8th ed., London: Macmillan, 1920 reprint of the 1st edition of 1890.
Shively, Bob/Ferrare, John (2004): Understanding today's natural gas business, San Francisco: Enerdynamics.