

Safeguarding Investments In Gas Infrastructure

An institutional analysis of gas transmission infrastructure in the European Union, using the United States as a benchmark

By Tim Boersma

Introduction

- ✓ Background of this study
- ✓ Background on EU investments in gas infrastructure
- ✓ Why the EU status quo is suboptimal?

”HOUSTON, US AGAIN.
WE HAVE THAT PROBLEM
ONCE MORE.“

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Meanwhile, in the US...

- ✓ Why the US provide a reasonable benchmark?
- ✓ Differences and comparable features
- ✓ Also concerns about the US gas market
- ✓ But, regarding infrastructure...

Question?

What lessons can we learn from the investment climate regarding gas transmission infrastructure in the EU using a four-step institutional analysis, and using the US as a benchmark?

Framework of the study

Institutional analysis of regulatory regimes in the US and the EU regarding gas transmission infrastructure

- ✓ Analysis of
 - ✓ Relation between legislature and regulatory authorities
 - ✓ Criteria that regulatory authorities use when determining gas transport tariffs, using efficiency, security of supply and sustainability
 - ✓ The role of private and public investments in gas infrastructure
 - ✓ Analysis of decision-making structures, using an MLG framework

Methodology and limitations

- ✓ Primary and secondary data, the former qualitative and derived from interviews, the latter academic contributions, policy papers and legal documents
- ✓ Decision-making structures analyzed using MLG framework, that has been designed to study European integration
- ✓ Case studies focused on US interstate gas transport and EU transmission (i.e. cases of Great Britain and Netherlands). Neglect of intrastate US gas transport is lacuna.
- ✓ Quantification of Lisbon Treaty policy goals poses challenge

MLG framework of analysis

| Governance level | Public domain | Private domain |
|------------------------------------|----------------------|-----------------------|
| Supranational / Federal | | |
| National / State | | |
| Regional | | |
| Local | | |

Results

| | Efficiency | Security of Supply | Sustainability |
|----------------------|---------------------------|---|--|
| Great Britain | Delegated regulatory task | Shared responsibility with Department for Energy and Climate Change (DECC), and active engagement with UK government to carry out Gas SCR | Delegated regulatory task for OFGEM since 2008 |
| Netherlands | Delegated regulatory task | Shared responsibility with Ministry of Economic Affairs (though no explicit mandate) for the NMa, that plays role in design of new balancing regime, in order to safeguard security of supply in most efficient manner. | No delegated task for the NMa |

Results

| | Efficiency | Security of Supply | Sustainability |
|----------------------|--|---|--------------------------------|
| United States | Delegated regulatory task in the US, though rate-of-return regulation is used as an investment vehicle and may subsequently prohibit most efficient transport tariffs. | Delegated regulatory task for FERC that uses substantial rates of return for pipeline operators to generate appetite for investments. | No delegated task for the FERC |

Results

- ✓ US regulation as an investment vehicle
- ✓ Boundaries of GB regulation mandate
- ✓ EU decision-making analysis demonstrates shifts in:
 - ✓ Investments in gas infrastructure
 - ✓ Regulation

So?

- ✓ Substantial differences between US and EU in terms of:
 - ✓ (Clarity of) mandates
 - ✓ Leading principles in designing regulation
 - ✓ Rates of return for investors in gas infrastructure
- ✓ Difficult to pinpoint exact causalities (mixture likely), but analysis does:
 - ✓ Reiterate importance of completion of EU gas market and further European integration
 - ✓ Suggest that Europe's leading principles in designing regulation could be reassessed in order to generate more appetite for investment

Thank you!