24th World Gas Conference
ARGENTINA | 2009
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Study Group 3.1
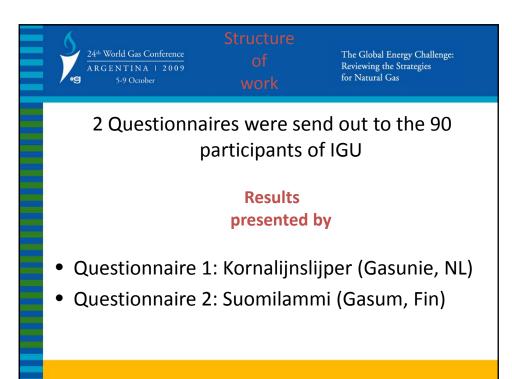The Global Energy Challenge:
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Report 2006 - 2009 Study Group 3.1:

"Impact of regulation on gas transmission, safety and security of supply"

Study leader: Marinus Kornalijnslijper, the Netherlands

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Participants
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Li **Yanqjang**
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China

Docekal
RWE
Czech Republic

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Structure
of
work
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2 Questionnaires were send out to the 90 participants of IGU

**Results
presented by**

- Questionnaire 1: Kornalijnslijper (Gasunie, NL)
- Questionnaire 2: Suomilammi (Gasum, Fin)

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Conclusions
questionnaire 1

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1. Experience of the operators with regulation on O&M is limited.
2. Almost every operator has the feeling that regulation will affect safety and security (of supply) with time (the average is 5 years).
3. All operators think that the failure frequencies will increase because of regulation. But overall, the feeling is not based on facts yet.

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Expectations & Experiences

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Common feeling: regulation will affect safety and security (of supply) with time.

When regulation comes in: "R&D, Standardization and Branch Activities" go out.

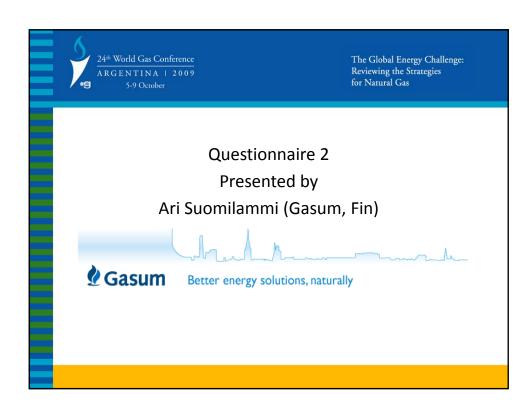Regulators are exploring and sometimes overstepping the (legal) boundaries.

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1. 30 answers out off 90 participants is not enough for firm conclusions

2. *Support from an independent consultant is needed for credibility reasons*

3. Involve the regulator

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Questionnaire 2

Presented by

Ari Suomilammi (Gasum, Fin)

Gasum   Better energy solutions, naturally

Structure of
questionnaire 2

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- NERA Economic Consulting was commissioned to undertake an investigation into the impact of regulation on the safety and security of supply (SoS)
  - Design a new survey for regulators and TSOs
  - Analyze the results of the survey
  - Review the economic literature about regulation impact on safety and SoS
  - Summarize the international experience of regulation impact on safety and SoS

- Responses from eight TSOs and five regulators from 11 countries were obtained

Conclusions and recommendations of
questionnaire 2

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- Survey results
  - Wide range of regulatory systems are in use
  - TSOs and regulators recognize and express concern about the potential impact of incentives to cut costs on safety and SoS
  - Most regulatory authorities do not rely on finely-tuned incentive mechanisms to maintain safety and SoS in the gas transport sector, but rather on general instruments
  - Most TSOs and regulators believe that gas transport companies could increase profits in the short term (one-to-two years) under current regulatory arrangements by reducing investment in safety and security of supply.
  - They also agree that the effects would be felt within the medium-to-long term (three-to-five years or longer).
  - TSOs and regulators therefore agree that incentive regulation puts safety and security of supply at risk if there are no specific measures designed to maintain standards

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- Literature search results
  - Incentive regulation that encourages cost reductions without quality incentives would threaten safety and SoS
  - However, incentive regulation need not put safety and SoS at any greater risk than other forms of regulation, if regulators provide additional incentives to maintain the quality, safety and security of supply

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- Conclusions
  - Survey and literature search have both confirmed that, when regulatory systems provide an incentive to minimize costs, there is concern for the safety and SoS
  - Concerns can be overcome through detailed work on regulatory incentives to maintain the safety and SoS
  - Common themes in the design of the mechanisms used to uphold safety and supply security standards are:
    - Publication of key performance indicators
    - Minimum standards at a system level or customer level
    - Incentive schemes which reward performance above and below target levels