

Publication

Removing Cross-Border Capacity Bottlenecks in the European Natural Gas Market - A Proposed Merchant-Regulatory Mechanism

JournalArticle (Originalarbeit in einer wissenschaftlichen Zeitschrift)**ID** 3346338**Author(s)** Neumann, Anne; Rosellon, Juan; Weigt, Hannes**Author(s) at UniBasel** [Weigt, Hannes](#) ;**Year** 2015**Title** Removing Cross-Border Capacity Bottlenecks in the European Natural Gas Market - A Proposed Merchant-Regulatory Mechanism**Journal** Networks and Spatial Economics**Volume** 15**Number** 1**Pages / Article-Number** 149-181**Keywords** Regulation; Natural gas network; Investment; Europe

We propose a merchant-regulatory framework to promote investment in the European natural gas network infrastructure based on a price cap over two-part tariffs. As suggested by Vogelsang (J Regul Econ 20:141–165, 2001) and Hogan et al. (J Regul Econ 38:113–143, 2010), a profit maximizing network operator facing this regulatory constraint will intertemporally rebalance the variable and fixed part of its two-part tariff so as to expand the congested pipelines, and converge to the Ramsey-Boiteaux equilibrium. We confirm this with actual data from the European natural gas market by comparing the bi-level price-cap model with different reference cases. We analyze the performance of the regulatory approach under different market scenarios, and identify relevant aspects that need to be addressed if the approach were to be implemented.

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