

IEA/IGU/CIEP High Level Conference on Regulation of Natural Gas Markets

Introduction to Session Two: Investments for the Future

Dieter Helm
New College, Oxford

January 26th 2006

- the new paradigm objectives
 - security of supply and climate change
- what are the implications for investment?
- how is an investment-friendly policy framework created?
- what sort of regulation promotes investment?
- how are markets best used to deliver investments?

- a *system*-wide property
- portfolio impacts, interconnectors and diversity
- the role of storage and emerging sharing rules
- lessons for the Ukraine

- interconnector investment creates ‘system/public good’
- therefore need extra incentives/support
- private decisions do not = public good
- key coordination role
- cost of capital dominates in capital-intensive, sunk-cost industries

In **excess supply**, unbundling, asset-sweating and spot contracting

In **excess demand**, vertical integration, investment and long-term contracts *for the sunk costs (only)*

- focus on cost of capital
- underwrite regulatory asset bases
- protect sunk costs
- ensure system benefits
- ensure storage returns
- respect aspects of long-term contracts

- what liberalisation does to contracting incentives
- *especially* when lack of futures markets
- why long-term contracts are *natural* market forms
- creating competition for long-term contracts and designing capacity markets
- establishing ultimate responsibility for security of supply

Energy, the State and the Market: British Energy Policy since 1979,
revised edition, 2004, Oxford: Oxford University Press

Climate Change Policy (edited), 2005, Oxford: Oxford University Press

'The New Paradigm', *Oxford Review of Economic Policy*, Spring 2005

'A New British Energy Policy', November 2005, London: Social Market
Foundation, www.dieterhelm.co.uk

'Carbon Contracts and energy policy: An outline proposal',
October 2005, www.dieterhelm.co.uk

'European Energy Policy: Securing supplies and meeting the
challenge of climate change', October 2005, www.eu2005.gov.uk,
www.dieterhelm.co.uk

www.dieterhelm.co.uk