

Natural Gas Distribution Tenders: a theoretical and empirical analysis

Abstract

Natural gas distribution constitutes, due to its technical and economic features, a natural monopoly. In addition to price regulation, the Italian legislator has introduced competitive tenders in order to lower total cost of the service (efficiency) while achieving high quality standards.

The purpose of the research is to assess if the outlined normative and regulatory framework is capable to meet these aims and to increase social welfare. In this respect, the main features of the tenders and the effects on distributors, local Governments and consumers as consequence of the introduction of competition for the field will be assessed.

In Chapter I the normative evolution of the natural gas distribution sector from the issuing of legislative decree n. 164/2000 (the so called 'Decreto Letta') will be described. Nevertheless the decree established that the existing concessions should have come to an end and that the service should have been assigned only by competitive procedures, the transitory period last almost 15 years, and after extensions and postponements, the tenders will finally take place from June of 2015.

If the passage from local monopolies to the competition for the field through tenders will imply some transition costs, it is possible to argue that the common set of rules and provisions issued by the legislator (economic and technical awarding criteria, communication obligation, required qualifications) should foster transparency and reduce asymmetric information between incumbent and new comers.

In Chapter II the interaction between law and regulation will be analyzed, stressing that the instability and the inconsistency of normative and regulatory rules concerning the terminal value (VIR) that new comer should pay to incumbent could increase the transition costs paid by consumers. According to article 24 of legislative decree n. 93/2011, the difference between this value and the regulatory asset base (RAB) is recoverable through tariffs. Some incentives have been set to make distributors compete giving away the possibility of recovering these costs. In this respect, while tenders are intended to be an effective instrument to promote competition and to reduce the transition costs, due to the absence of coordination between rules and regulatory tools (asymmetric tariffs among incumbent and new comer) will be highlighted that the resulting mechanism could be not efficient in selecting the distributor that will offer lower price (tariff).

The tenders will reduce consistently the number of natural gas distributors. It will be pointed out that the definition of the optimal size for the concessions to be granted by local

authorities is one of the most relevant and critical issue affecting competition in the (future) natural gas distribution sector, due to high barriers to entry for new comers for the terminal value to be pay.

The tenders will stimulate merger and acquisition process for participating to the tenders. In Chapter III some cases concerning concentrations and acquisition between natural gas distribution companies will be examined in order to identify the most relevant proposition and passage in the analysis held by the Italian antitrust authority with specific regard to the identification of the relevant market and the methodology used to asses if a distributor, having a specific interest in participating to a tender, should be considered as a potential competitor.

In Chapter IV the competitive situation ex ante will be described in order to make some assessments on the level of the competition in the future tenders.

Key words: *natural gas distribution; competition for the field; regulation; transition costs; bidding markets*