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THE INFLUENCE OF REGULATION ON ENERGY INFRASTRUCTURE DEVELOPMENT: LNG TERMINALS IN ITALY.

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Overview

In recent years, European gas demand has considerably grown, while the internal production has decreased because of the progressive depletion of North Sea fields. This has provided market operators with incentives to carry out new import infrastructures, in particular new LNG regasification terminals. In addition, also the new European regulation has played a very important role in boosting new LNG investments, in particular with a general exemption from TPA requirements.

However, regulation not only regards the remuneration of assets (ex-post), but also their effective construction (ex-ante). In a delicate and environmental-sensitive business such as the liquefied natural gas, this implies time-consuming and expensive negotiation in order to obtain the necessary authorizations with different government levels and agencies: a bad ex-ante regulation may therefore neutralize the positive effects of an incentive ex-post regulation.

Methods

We will take into consideration the example of the LNG investments in Italy. After the liberalization of 2000 and a considerable demand increase thanks to the power generation sector, several operators have proposed the construction of eleven LNG regasification terminals in Italy. The promoters of these terminals were (and are) supported by a generous ex-post regulation by the Italian energy authority (AEEG) which guarantees the recovering of investments. However, none of these LNG plants has already been built and only one is currently under construction.

LNG TERMINALE	ANNUAL REGASIFICATION CAPACITY PLANNED
Porto Levante Offshore (RO)	8 kmln m ³ /y (authorized)
Brindisi	8 kmln m ³ /~ (authorized) ¹
Toscana Offshore (LI)	3,5 kmln m /y (authorized)
Rosignano (LI)	8 kmln m ³ /y
Gioia Tauro (RC)	12 kmln m ³ /y
Rada di Augusta (SR)	Up to 12 kmln m ³ /y
Porto Empedocle (AG)	Up to 12 kmln m ³ /y
Taranto	8 kmln m ³ /y
Zaule (TS)	8 kmln m ³ /y
Trieste Offshore	8 kmln m ³ /y
Ravenna Offshore	8 kmln m ³ /y

Results

Our analysis of the Italian case highlights two main problems: the first concerns the length and expensiveness of the authorization process, which is a cost that must be internalized by operators and it is a variable that may discriminate competition among the different members of the European Union. The second is the possible absence of credibility of the whole authorization process. In fact, eight projects out of twelve have already gotten all the necessary authorizations, but only in one case the plant is under construction, also because of the strong local oppositions.

Fig.2.1- Influence of regulation on investments.

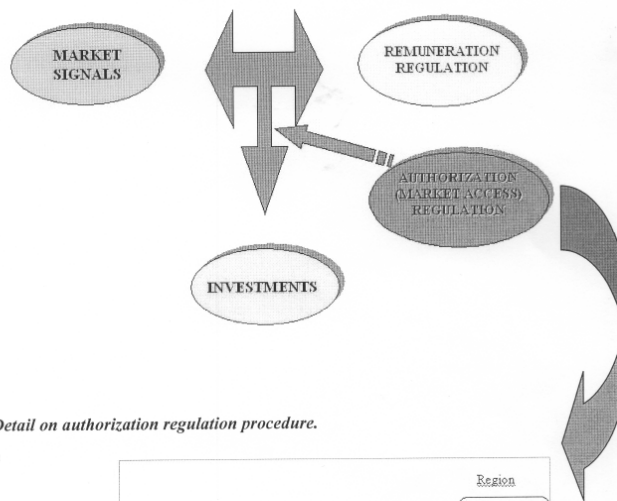
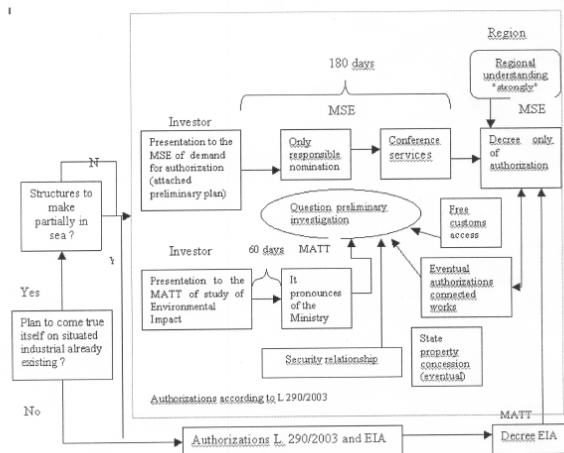


Fig.2-2 – Detail on authorization regulation procedure.



Conclusions

The main issue is the lack of coordination between ex-ante and ex-post regulation. Market operators often evaluate the profitability of investments only on the basis of the first factor, underestimating the second. However, the length and the lack of credibility of the authorization process may turn a profitable investment into an obsolete one.

The key policy indication is that the European Commission and the Forum of the European Energy Regulators must face also the problem of designing a common and stable ex-ante regulation, in order to neutralize possible negative effects on competition of the authorization process in the different Member States.

Finally, this finding is useful not only for the gas market, but also in all those fields where complicated authorization procedures for investments are required.

