



Challenges to the Future of European Single Market in Natural Gas

EPRG Working Paper 1908

Cambridge Working Paper in Economics 1918

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Abstract Recent gas price dynamics in Europe shows convergence to the extent that locational price differentials approached transport tariffs and hence arbitrage was largely saturated – it is a sign of a well-functioning pan-European gas wholesale market. We employ a transaction cost economics framework to understand how we got to where we are in terms of the evolution of the gas industry structure in Europe and its institutional setup. The move towards a single market in gas, which is still ongoing, has allowed European gas consumers to benefit from transparently set, market-based wholesale prices as well as from increased market competition between suppliers. However, as the gas market in Europe matures and with the increased penetration of renewable energy generation in the electricity sector as well as overall decarbonization of the energy sector in Europe, the gas market and its current regulatory regime face a number of challenges. Addressing these challenges may require an update to the current market design and possibly drastic reforms to tariff setting in the gas transport market.

Keywords Natural gas; European single gas market; security of supply; regulatory policy

JEL Classification L94

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Publication February 2019
Financial Support EPRG Energy Policy Forum