Comments on "Take or Pay Contracts and Market Segmentation" by M. Polo and C. Scarpa

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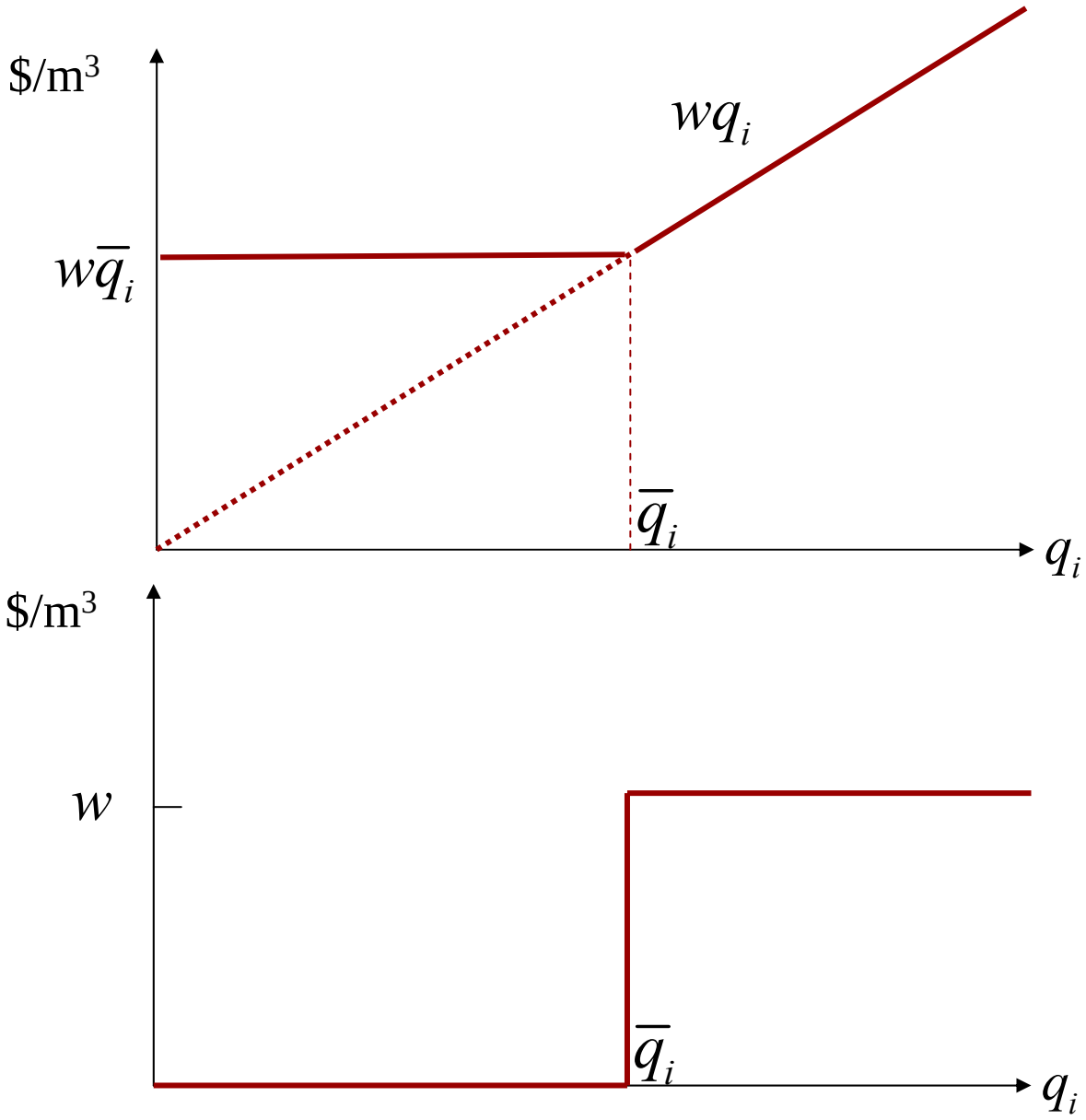
EC's view on the gas market liberalization

- According to P&S:
  - the EC wrongly consider that Gas Release + TPA are necessary and sufficient conditions for gas liberalisation;
  - the EC does not sufficiently consider the bias from Take Or Pay obligations
  - competition could be enhanced with a centralized pool because it would prevent TOP holders (with zero marginal cost) from playing strategically on the retail market.
- P&S propose a duopoly model to show how TOP holders segment the retail market to extract monopoly rents, which would be impossible on a pool.



on the technology

Questions:

* what if w is not the same for the incumbent and the entrant?

* same question in the pool framework.

on demand

net utility of consumer located at v when buying

from firm with characteristic x_i: $u^* - p_i - \psi(v - x_i)^2$

You write: "Since gas is commodity, we assume that product differentiation is very limited in scope, i.e. ψ is very low, with $\psi = 0$ as the limit case of perfectly homogenous sales"

Remark: low differentiation rather means that $(x_i - x_j)$ is small; a low ψ refers to weak 'transportation cost', consequently low switching cost.

Question: did you try to make x_i and x_j endogenous? What if (x_I, x_E) is (0,1) instead of (1/4, 3/4)?

on the timing

my understanding:

* entry: firm *I* visits each consumer, then *E* (maybe) visits each consumer (page 7);

* competition: *I* and *E* simultaneously announce (p_I, p_E).

Questions:

* how do *E* and *I* know about the other's visit?

* what occurs during the visits? Is there any commitment?

* is *E* allowed to propose different prices to the consumers who have been visited by *I* and those not visited?

on the two-market modeling

* the former timing is first applied up to the TOP commitment of *I* (market 1), then to the residual demand (market 2)

Remark:

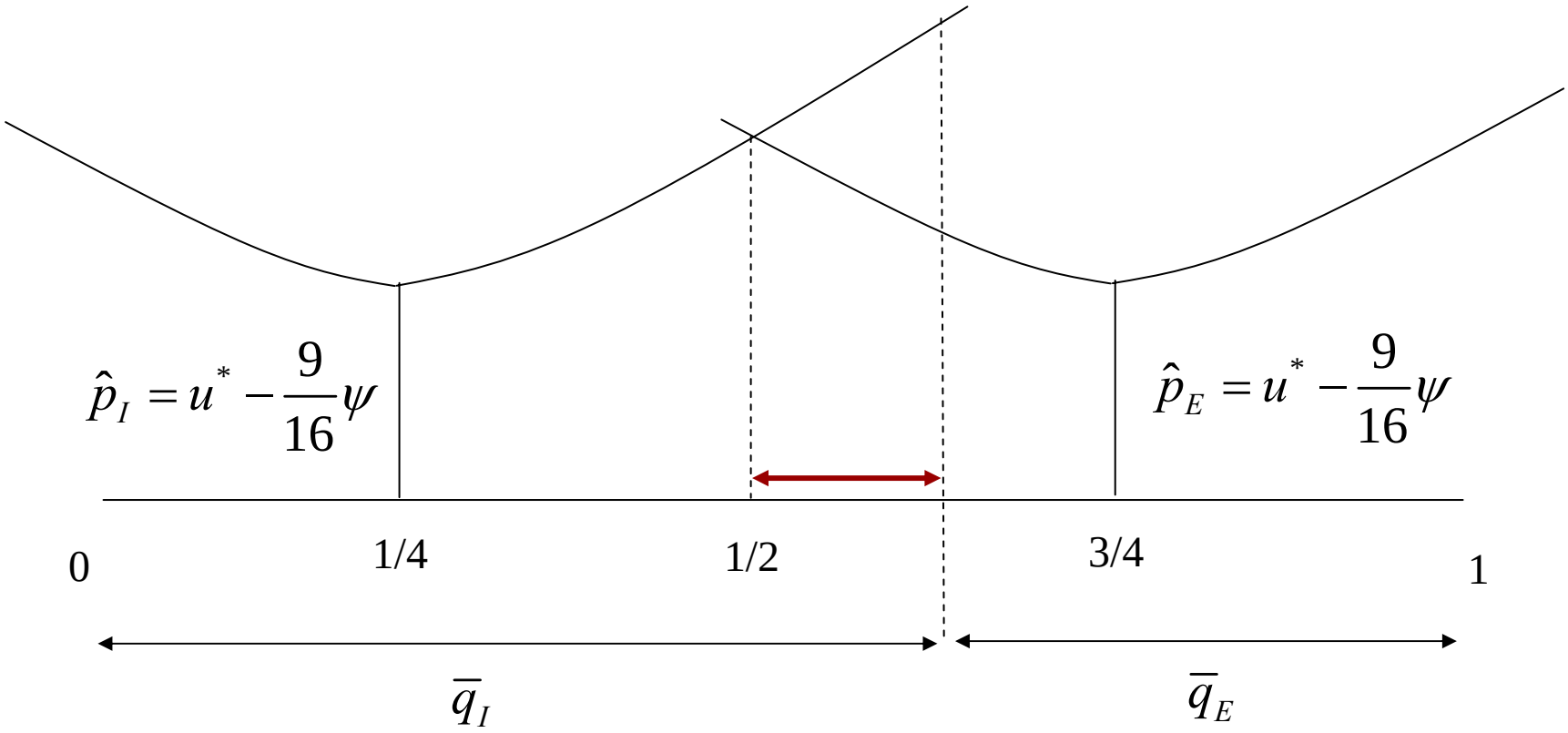
* since *I* exhaust its TOP capacity in market 1, this timing gives leadership to *E* in market 2.

subgame perfect equilibrium

* in the unique subgame perfect equilibrium, *I* is a monopoly on market 1 and *E* is a monopoly on market 2.

Remark:

* this requires that consumers have no anticipation on the price stage at the time they are visited and commit to be a client of *I* (market 1) or *E* (market 2) before knowing the prices



if they rationally anticipate the last stage of the game, all consumers on the right of 1/2 should decline to commit with *I*.

wholesale market

* proposition 10: the equilibrium wholesale price is at most equal to w.

Question:

* could the result be derived from the first part in the case where $x_I = x_E$?

Remark:

* the problem seems isomorphic to competition on a wholesale electricity market; see Fabra, von der Fehr and Harbord (2002, 2005) or Crampes and Creti (2006).