



Western Australia

Economic Regulation Authority

www.era.wa.gov.au

ECONOMIC REGULATION IN WESTERN AUSTRALIA

Lyndon Rowe

Chairman

Economic Regulation Authority

Australian Institute of Energy – Perth Branch

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Overview

Four main parts to presentation:

- Economic Regulation Authority of WA
- Why have regulation ?
- Role of the regulator
- Issues in regulation



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Economic Regulation Authority

- Governing Body – Chairman & 2 Members
- Administers industry specific regulation
 - Access in gas & rail
 - Licensing in water and gas
 - Electricity access & licensing from 1 July 2004
- Independent of Government & industry
- Government can refer inquiries to the ERA
 - Water pricing reference



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Legislation

- *Economic Regulation Authority Act 2003* (References)
- *Energy Coordination Act 1994* (Gas licensing)
- *Gas Pipelines Access (WA) Act 1998* (Gas access)
- *Railways (Access) Act 1998* (Rail access)
- *Water Services Licensing Act 1995* (Water licensing)
- *Electricity Industry Act 2004* (not yet proclaimed - Electricity access & licensing)



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Authority Must Have Regard To

- The public interest
- The long term interests of consumers
- Investment in relevant markets
- The interests of investors & service providers
- Competition & fair market conduct
- Preventing the abuse of monopoly power
- Transparent decision making



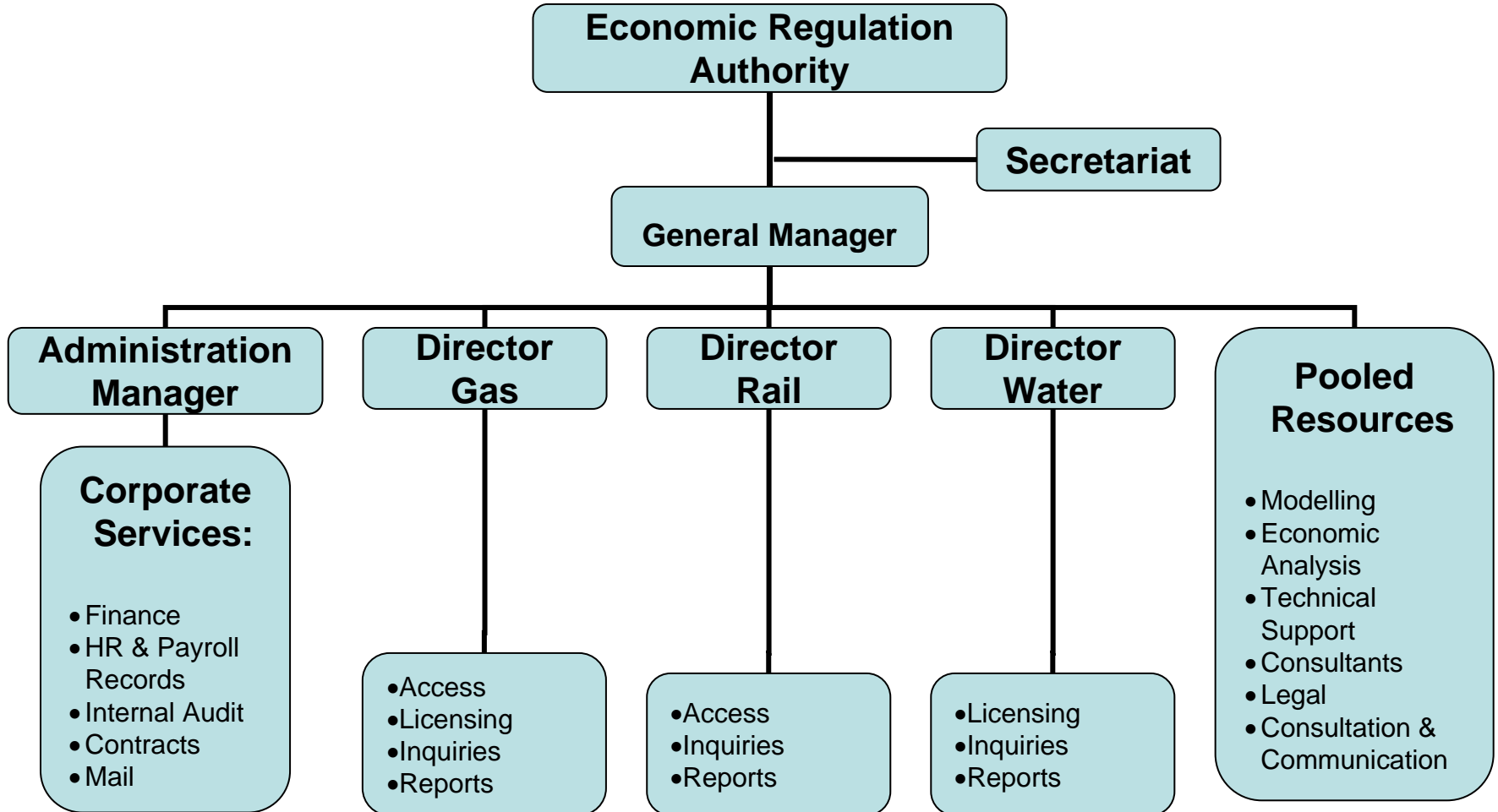
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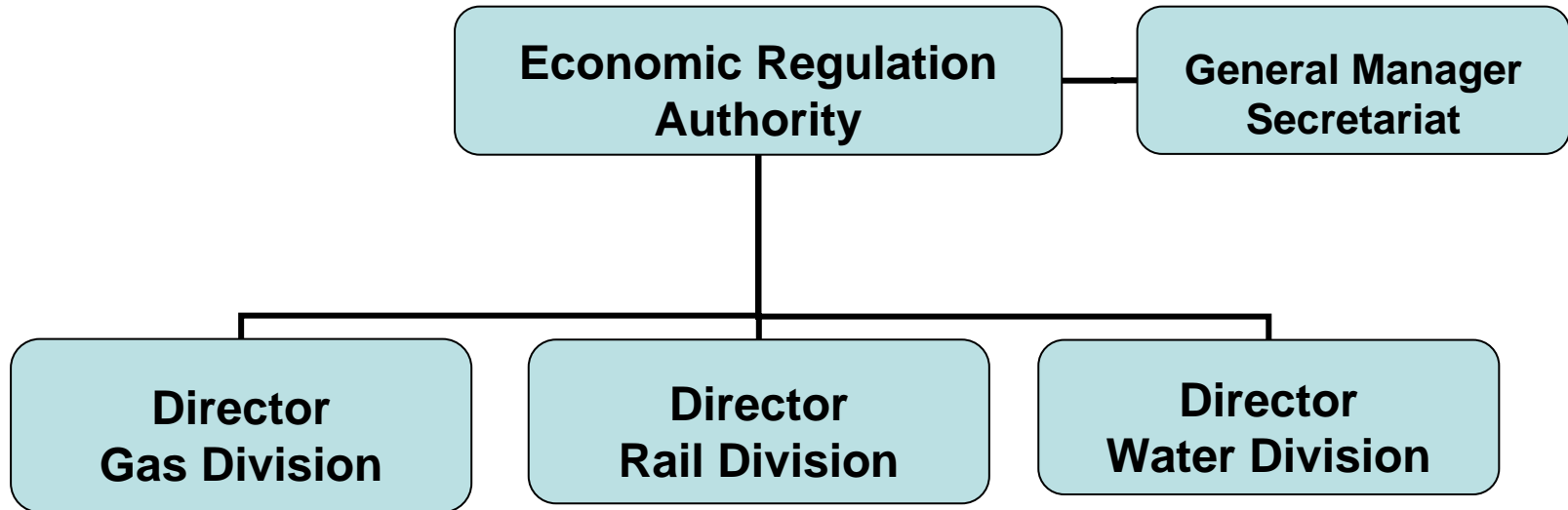
ECONOMIC REGULATION AUTHORITY

ORGANISATION STRUCTURE AS AT 1 JUNE 2004



ECONOMIC REGULATION AUTHORITY

REGULATORY STRUCTURE AS AT 1 JANUARY 2004



Why Have Economic Regulation?

“The statesman who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted to no council and senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.”

Adam Smith - The Theory of Moral Sentiments



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Reasons for Regulation

- Natural monopoly infrastructure
- One provider best able to deliver services
 - Declining marginal costs and/or
 - Single provider has lower marginal costs
- One provider:
 - No competition
 - Potential for abuse of market power
- Reasons for regulation:
 - To ensure access
 - To manage monopoly power



Role of the Regulator

- Not to turn good commercial decisions into bad ones
- Not to turn bad commercial decisions into good ones
- Epic Energy debate:
 - Did the Regulator overturn an agreement?
 - Was the price paid by Epic a good commercial decision?



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Regulatory “Chilling” of Investment

- Regulatory “chilling” can occur for two reasons:
 - The presence of regulatory risk
 - Non-commercial rates of return in setting tariffs



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Three Final Issues

- Lawyers
- New Infrastructure – Regulatory Holidays
- Technology Changes



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Conclusion

“What is needed is a hard-headed assessment of how imperfect regulations work in correcting imperfect markets, and the gains and losses from their deployment.”

Gary Banks, Chairman, Productivity Commission



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