

Economic Regulation Authority

 WESTERN AUSTRALIA

Promoting fair prices, quality services and choice.



Economic Regulation in Energy

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Economic Regulation in Energy

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Overview

- The Economic Regulation Authority
- Economic Regulation
- Issues

The Economic Regulation Authority

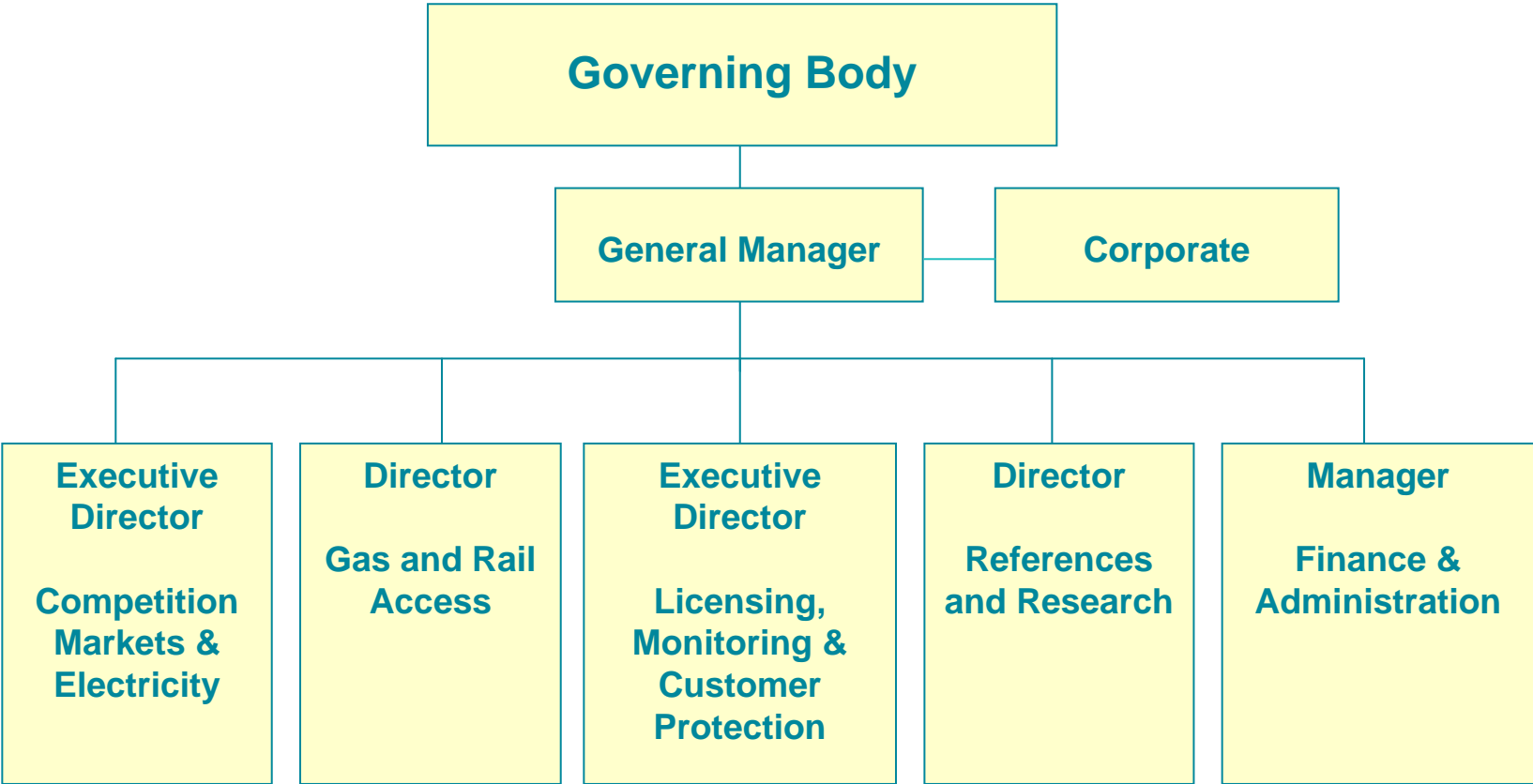
Functions

- Administers Access to Infrastructure
- Licenses Service Providers
- Monitors & Regulates Markets
- Inquiries (Referred by Government)

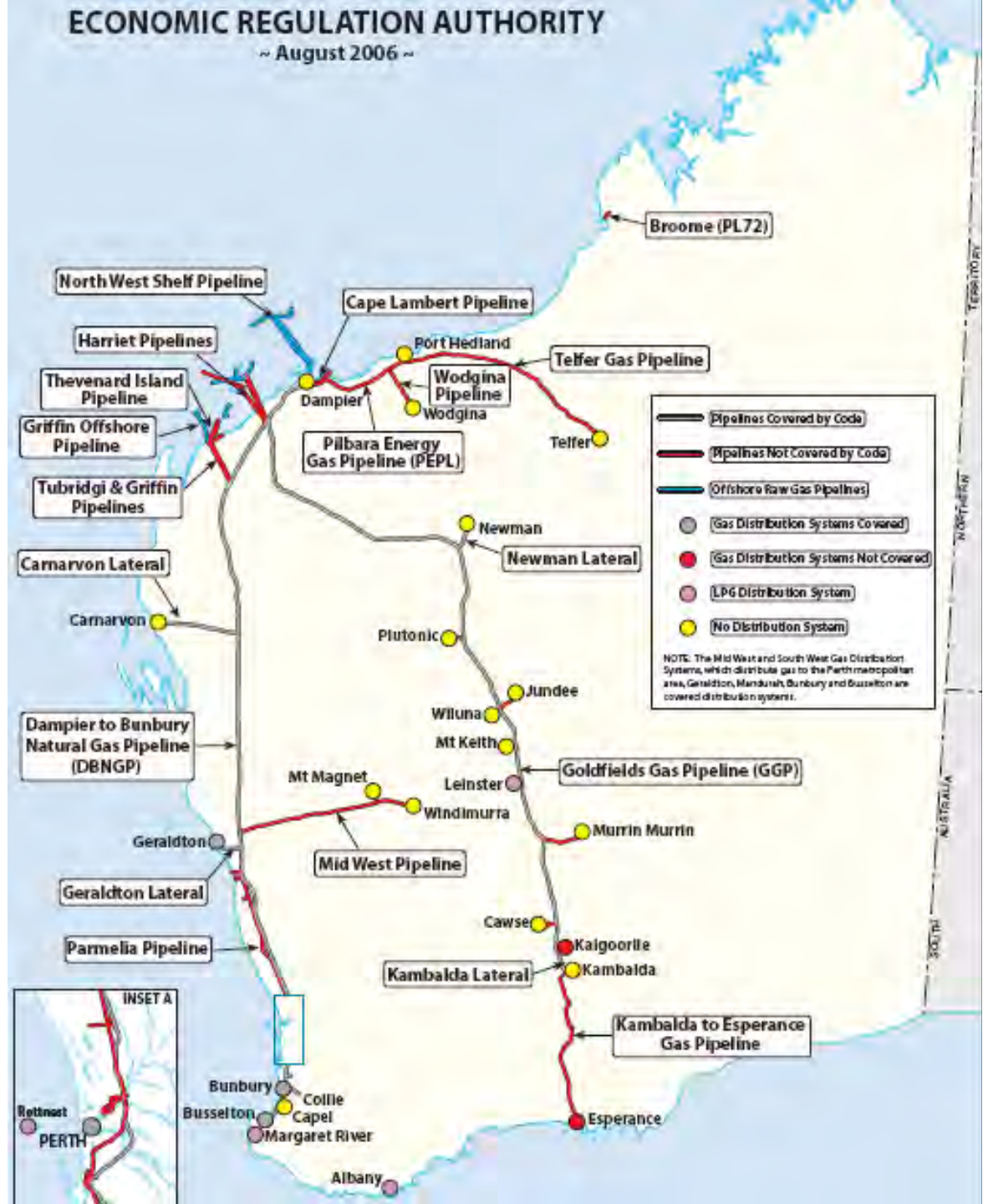
Features

- Independent of Government, Industry & Consumer Groups

Economic Regulation Authority



Gas Pipeline Infrastructure



Electricity Infrastructure

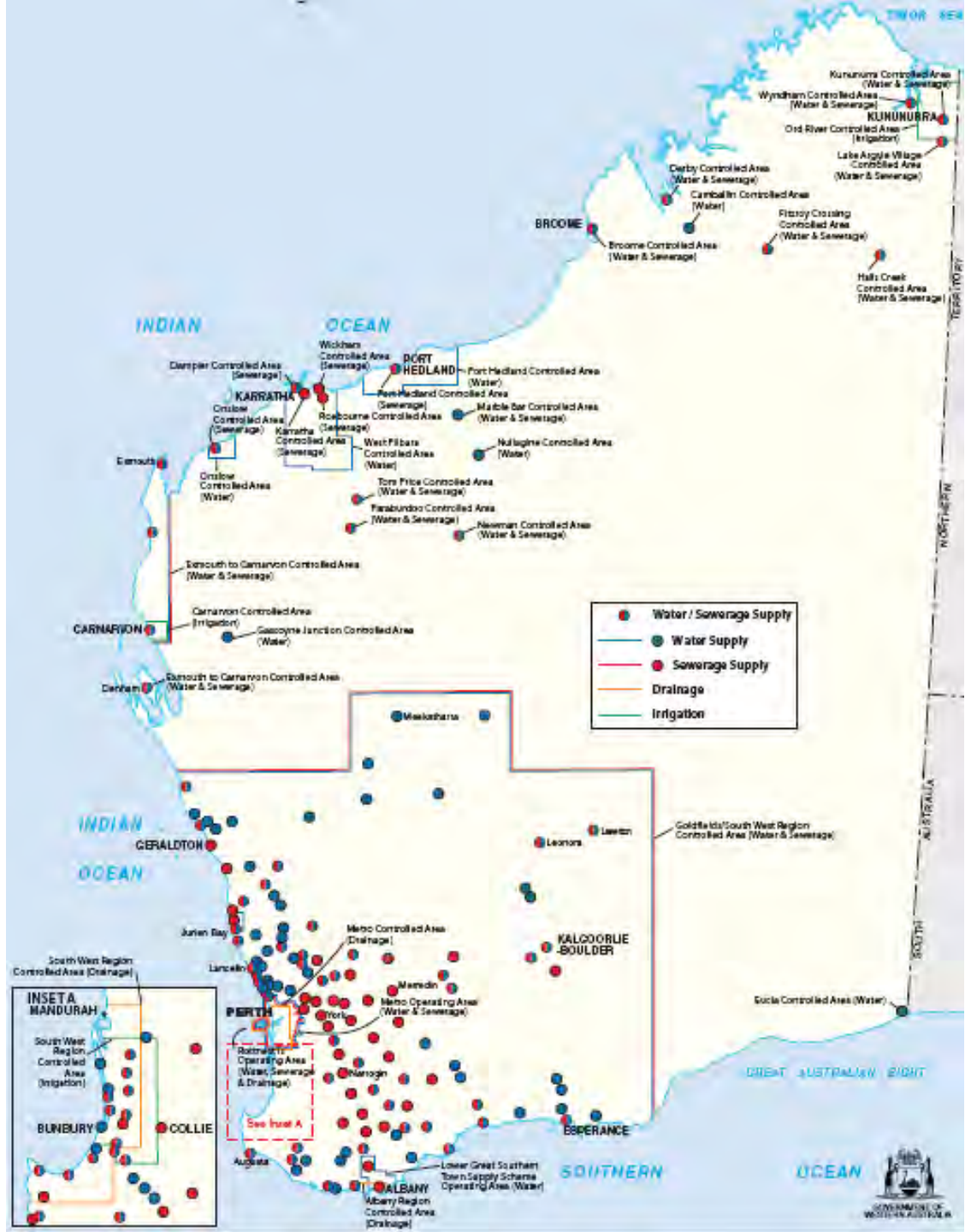


Rail Infrastructure

ECONOMIC REGULATION AUTHORITY ~ August 2006 ~



Water Services



Matters to which the Authority must have regard

- Promote the public interest
- Consider the long-term interests of consumers
- Encourage investment
- Consider the interests of investors & service providers
- Promote competition & fair market conduct
- Prevent abuse of monopoly power
- Practice transparent decision making

Section 26 Economic Regulation Authority Act 2003

Objective Function

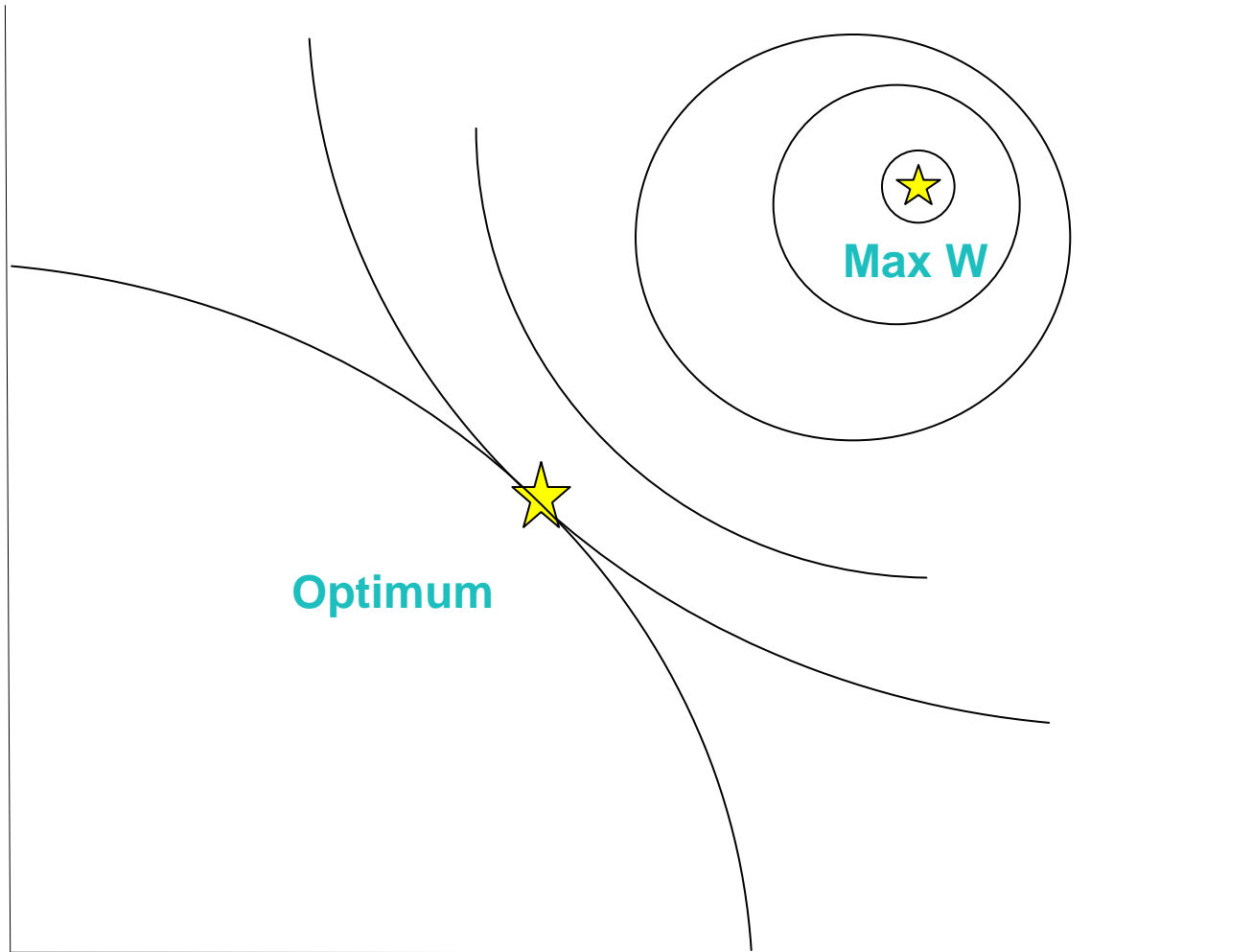
Maximise:

- Long term interests of consumers

Subject to:

- Interests of investors & service providers
- Encourage investment
- Environmental protection

Investment



Optimum

Max W

Environment

Economic Efficiency

Singularity

- Technical efficiency
- Allocative efficiency
- Dynamic efficiency

Objective Function

Maximise:

- Long term interests of consumers

Subject to:

- Interests of investors & service providers
- Encourage investment
- Environmental protection
- Re-elect Minister

Objective Function

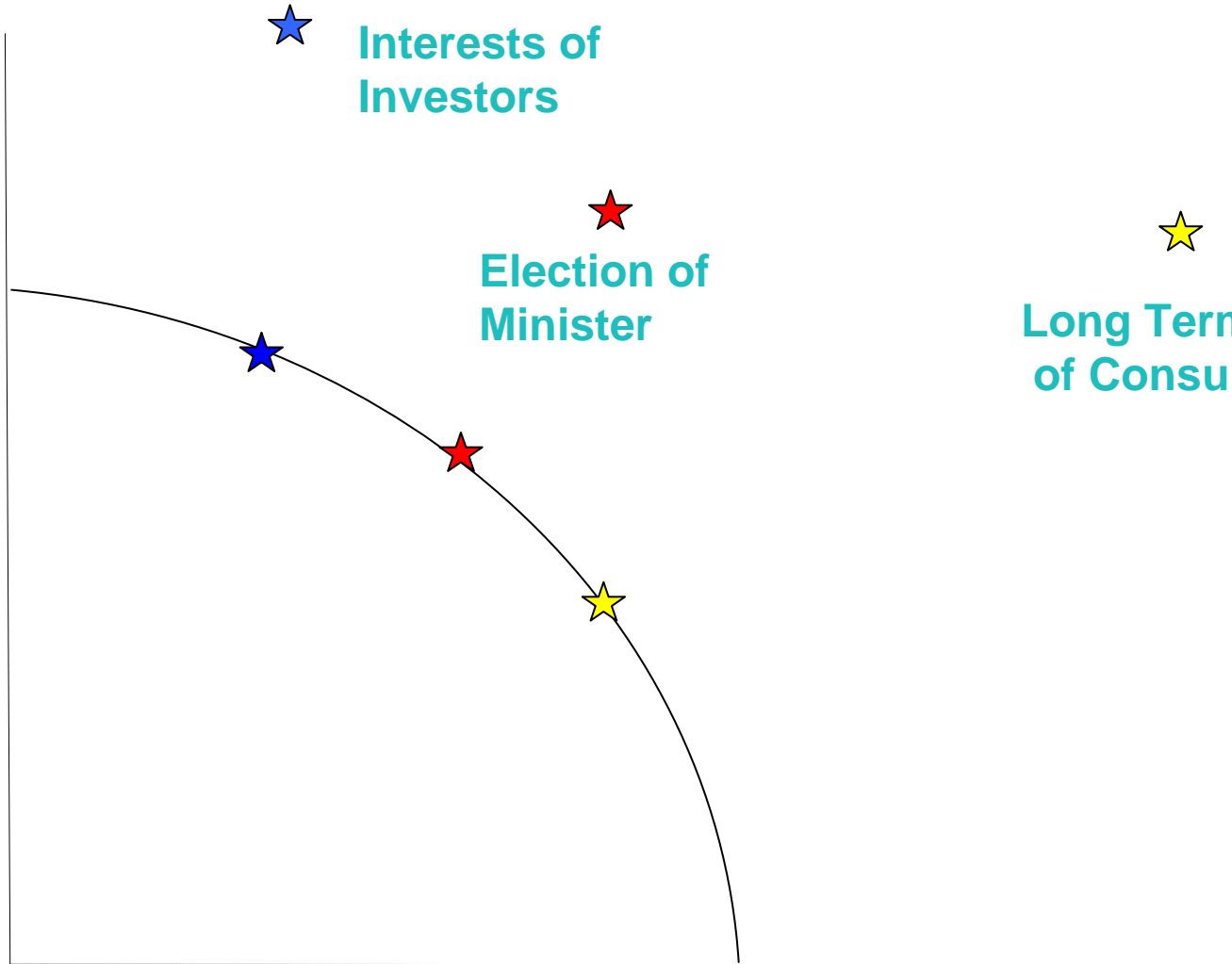
Maximise:

- Re-elect Minister

Subject to:

- Interests of investors & service providers
- Encourage investment
- Environmental protection
- Long term interests of consumers

Investment

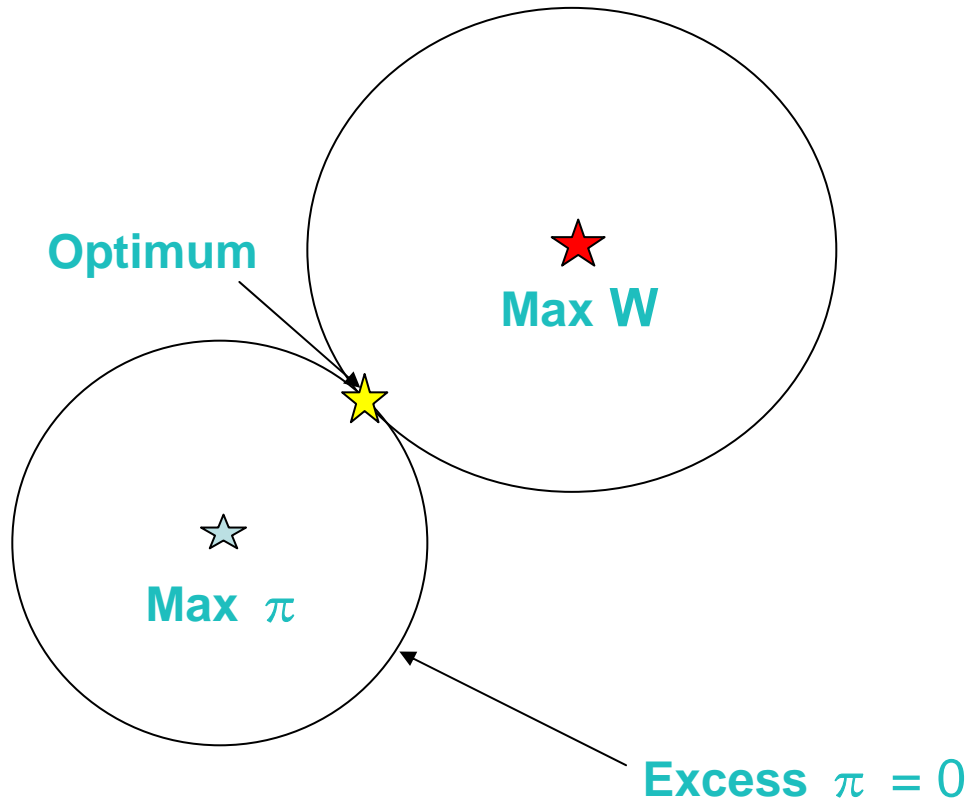


Long Term Interests of Consumers

Environment

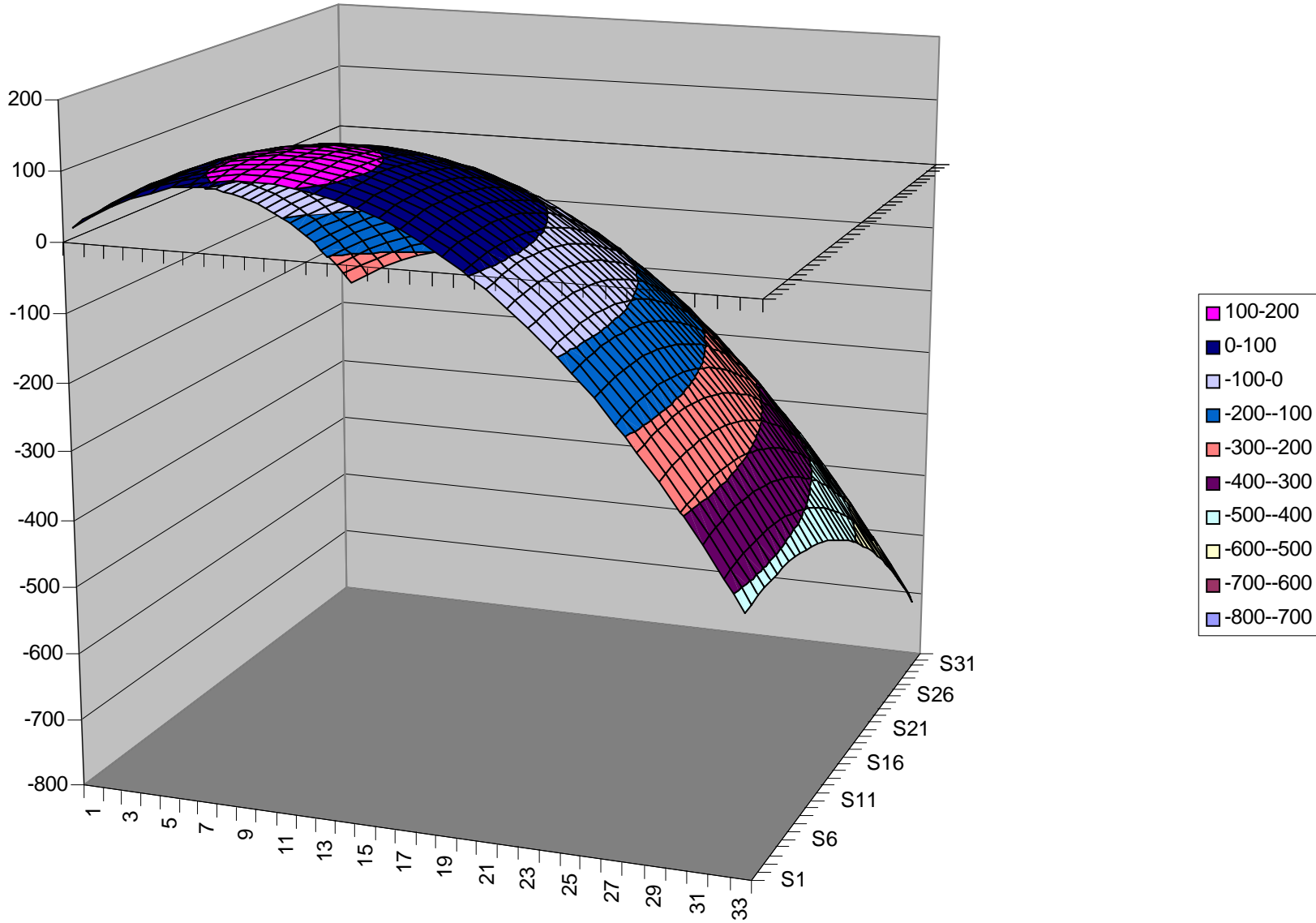
Energy Transmitted
TJ/d

Energy Transmission Company

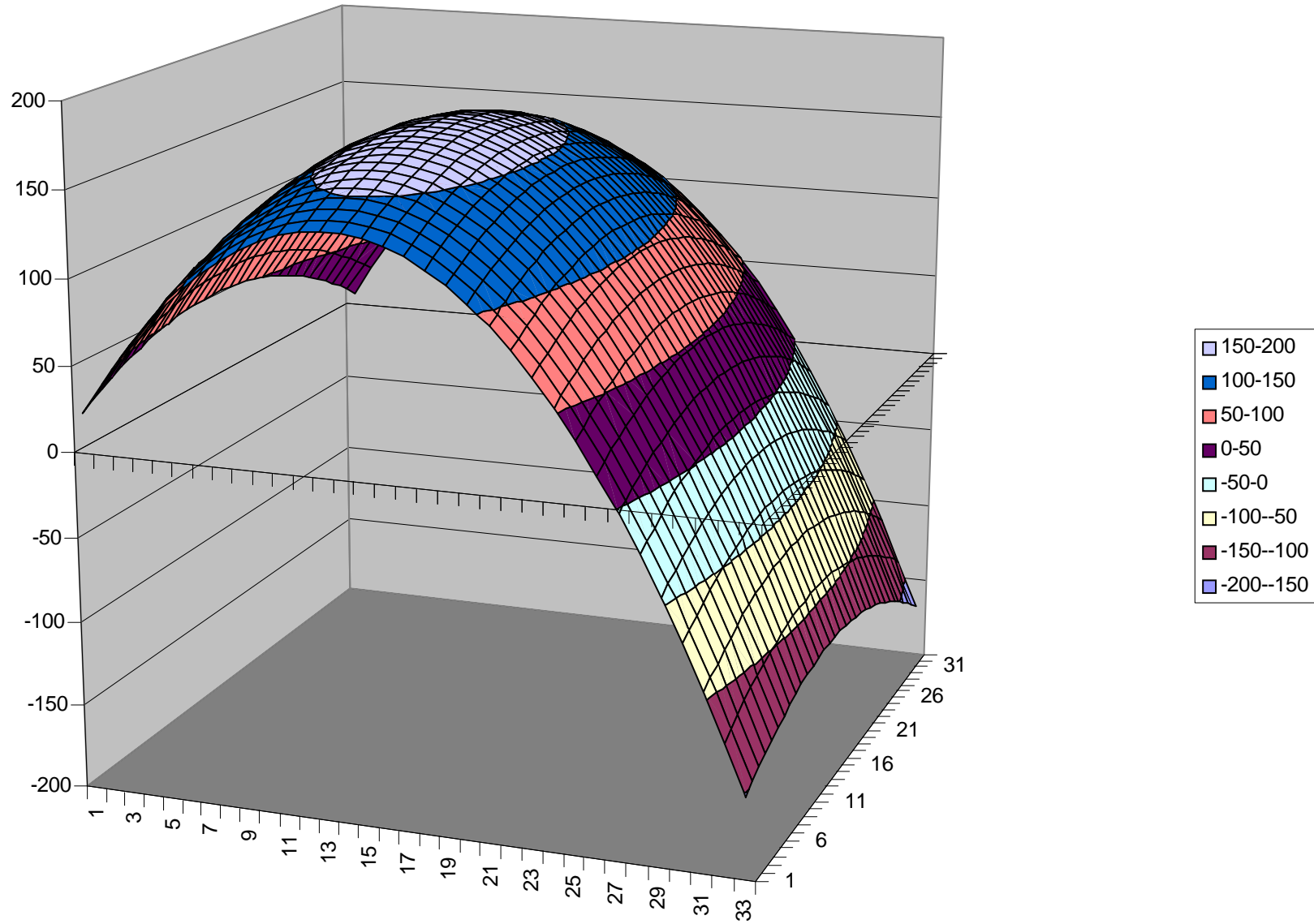


Energy Consumed TJ

Profit



Consumer Surplus



No Proof of Hypothesis

“The great difficulty in the social sciences (if we may presume to call them so) of applying scientific method, is that we have not yet established an agreed standard for the disproof of an hypothesis.

Without the possibility of controlled experiment, we have to rely on the interpretation of evidence, and interpretation involves judgement; we can never get a knock-down answer. But because the subject is necessarily soaked in moral feelings, judgement is coloured by prejudice.”

(Joan Robinson, Economic Philosophy, 1962, p26)

Prejudice

“Anyone who says to you:
‘Believe me, I have no prejudices,’ is either succeeding
in deceiving himself or trying to deceive you.”

(Joan Robinson, Economic Philosophy, 1962, p26)

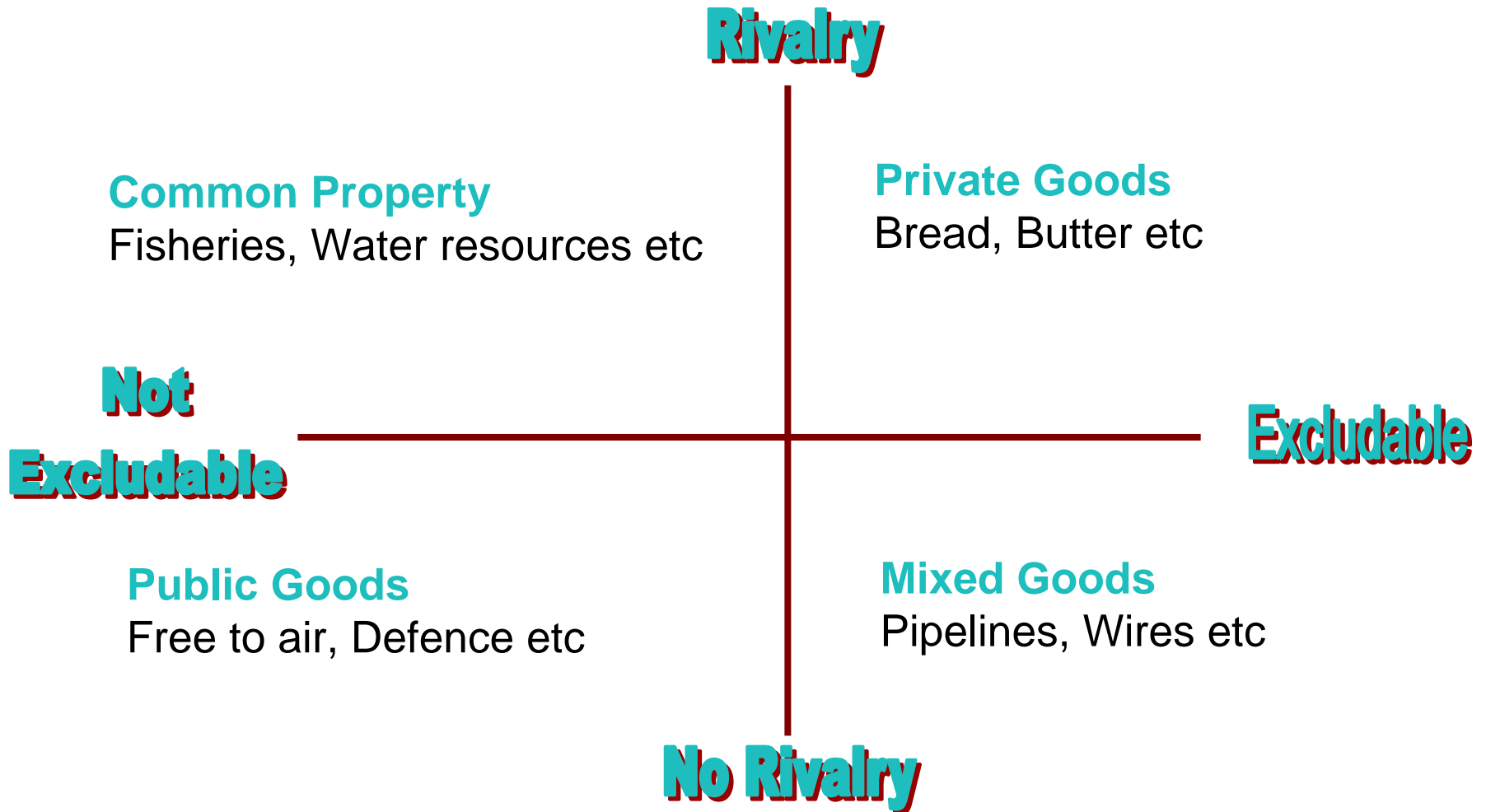
First Principles of Regulation

- There is a demonstrated need for regulation
- It actually works
- It's least restrictive on consumer sovereignty
- It's benefits outweigh the costs
- It's user friendly
- It's consistent with the nature of things

Types of Regulation

- Public sector ownership & control
- Price control of private sector
- Market based regulation
 - Open access
 - Structural separation
 - Markets in contestable elements
 - Price or revenue cap for monopoly elements
- Monitoring / transparency

Supply of Goods & Services



Monopoly

Factors:

- Economies of scale
- Economies of scope
- Other barriers to entry – new infrastructure

Externalities

- Environmental
- Social
- Other

Economic Regulation

Certainty

Inflexible
Prescription

Flexible
Regulation

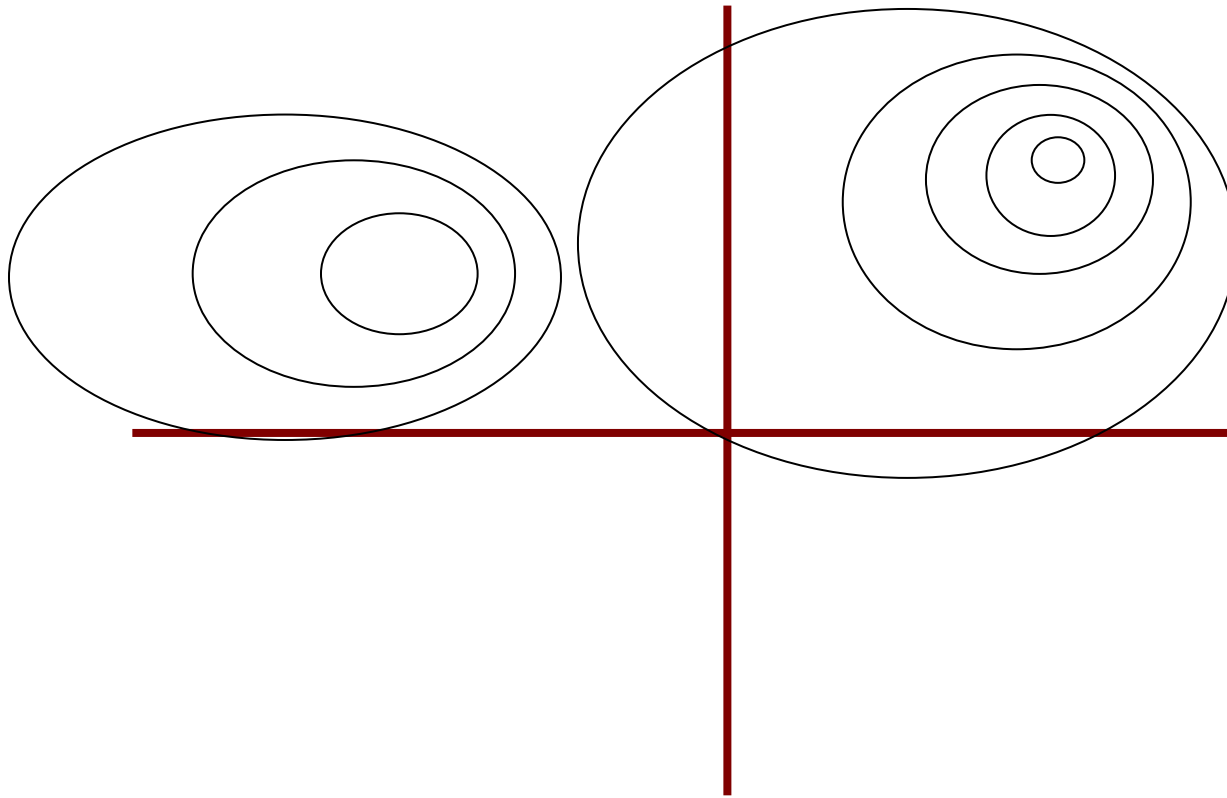
Discretion

Legislated
Mayhem
(Legal utopia)

Dictated
Mayhem

Economic Regulation

Certainty



Discretion

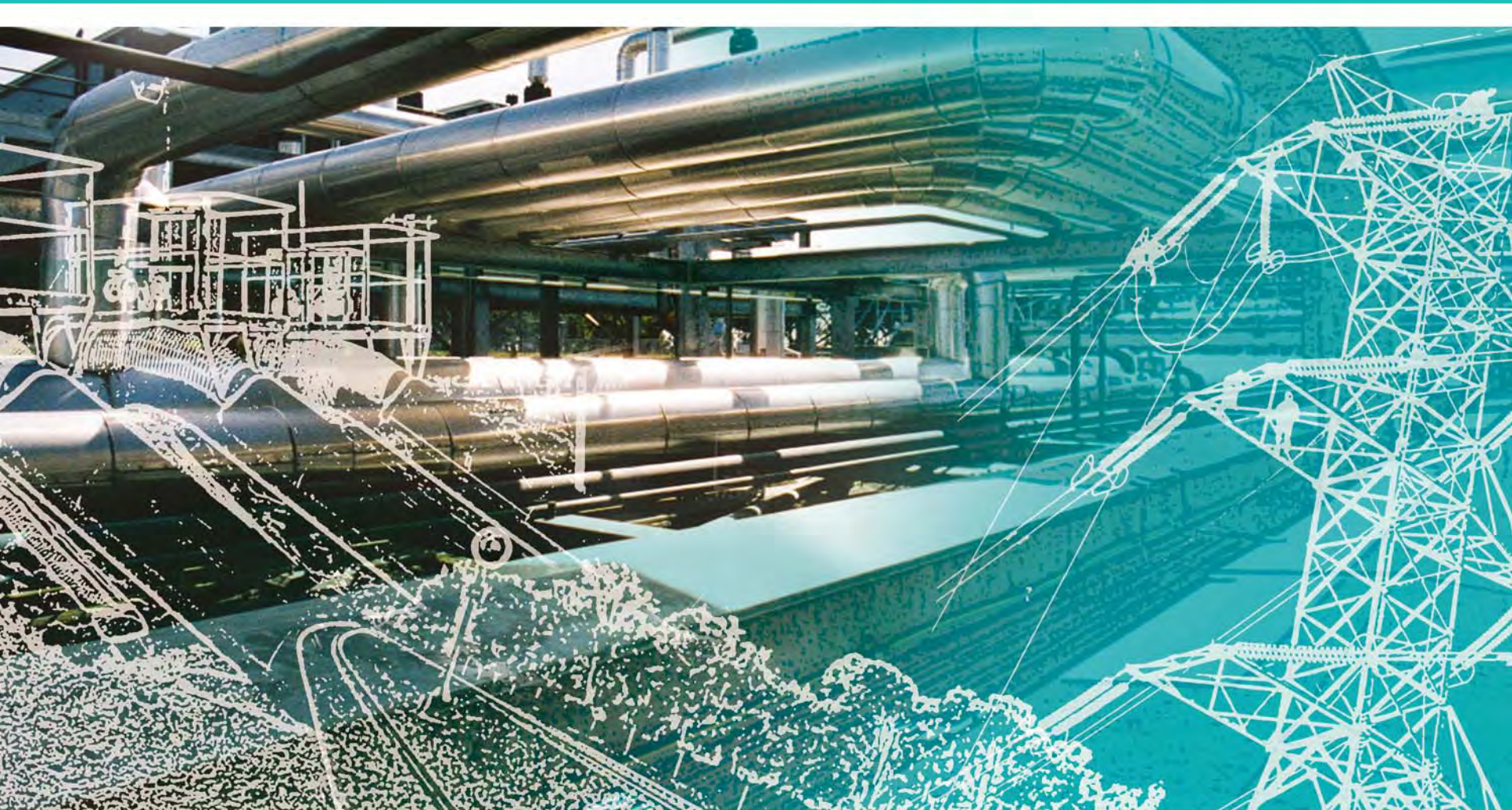
Conclusions

- Economic regulation continues to be contentious, but settling
- Regulation is second-best, but in some circumstances necessary
- Benefits of economic regulation not always obvious
- Issues complex, counter intuitive and easily misunderstood
- Litigation costly and time consuming
- One regulatory model does not fit all circumstances

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