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Gas Association



# Incentive regulation

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- Downstream gas industry
- Estimated \$6.0 billion gas network assets
- \$250 million capital expenditure per year
- Involvement in access regulation issues





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# Current developments in access regulation

- Farrier Swier paper (Jun 2002)
- Epic Energy judgement (Aug 2002)
- Productivity Commission *Review of the National Access Regime* (Sept 2002)
- Interim Response (Sept 2002)
- Energy Market Review (Dec 2002)





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## Why regulate?

- Cost of regulation and regulatory errors
- Competing pipelines
- Greenfields gas projects
- Non-integrated/ring fenced networks



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# Defining incentive regulation

- Working definition:
  - revenue/price control, not profit control
  - regulatory review periods
  - incentives to improve efficiency
- Different perspectives





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## Comparing theory and practice

- Short-term focus on identifying perceived monopoly rents
- Review periods short in 'asset life' terms
- Lack of strong or equitable incentives for efficiency





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## Treatment of efficiency gains by regulated gas businesses

Jurisdictional regulator	Treatment of forecast efficiency gains	Net Present Value sharing of forecast gains (business/user)	Treatment of unforecast efficiency gains	Net Present Value sharing of unforecast gains (business/user)	Inter-period efficiency carryover mechanism
Commonwealth	Not retained	0/100	Retain minimum 5 years	30/70	Yes
Victoria	Not retained	0/100	Retain minimum 5 years	30/70	Yes
New South Wales	Not retained	0/100	Retain until reset	30/70*	No
South Australia	Not retained	0/100	Retain 10 years	50/50	Yes
Western Australia	Not retained	0/100	Retain until reset	30/70*	No
Queensland	Not retained	0/100	Retain until reset	Not defined	No

\* First year efficiency gains only





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# Alternative incentive approaches

- Scope of assessment relatively narrow
- Alternative approaches:
  - price monitoring
  - price-service offerings
  - cost-based ‘glidepath’
- Criteria for assessment







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# Policy development and objectives

- Governments and policy makers set the framework and objectives
- Regulators apply regimes
- Need for clear policy guidance – Productivity Commission





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# Scope and development of regulation

- Airports
- Harbour towage
- Gas developments
  - Tasmanian gas distribution project
  - Tasmanian Gas Pipeline
  - Eastern Gas Pipeline
  - Origin/SEAGas pipeline





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## Summary

- Supporting actual and emerging competition
- Closing the theory and practice gap - incentive regulation
- Alternative access pricing models
- Consistency with policy developments