

# Competition Better than Regulatory Compulsion

| [Alan Moran](#)

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We have now seen almost a decade of contention over the regulatory regime for controlling Australia's natural gas supply. The present warzone is a Productivity Commission Review.

Behind arguments about regulated price outcomes is a four-way conflict. Pipeliners want to build new facilities and obtain any blue sky that might emerge; they also want existing pipelines to escape regulatory control and 'inadequate returns' of regulated prices. By contrast, various user groups want to see low charges, based on marginal costs. Gas suppliers also want to see carriage prices kept as low as possible to increase demand for the commodity. Arbitrating these divergent interests are the regulators for whom retention and expansion of existing powers constitutes a further, separate interest.

The current regime, centred on regulatory price determinations, replaced state government control and ownership. Within the framework of National Competition Policy (NCP), this has promoted competition by smashing the previous gas pipeline monopolies. But it has left regulators, like the ACCC, to 'scientifically' determine prices for gas carriage based on their estimates of the market price that would prevail if there was active competition.

Whether or not pipeline price reductions required by regulators replicated competitive outcomes, these price reductions were one-off. They translated the lower costs resulting from privatisation/corporatisation into lower prices. Scope for further reductions is unlikely to be so spectacular and is best achieved by real competition increasing efficiencies rather than regulatory compulsion.

Greater scope for allowing competition to assume its conventional role of market 'regulator' is developing. Pipeline-on-pipeline competition is already in place in Sydney and will soon also be in Adelaide. The dominant sources of gas--- Cooper and Bass Strait---are already competing with each other and additional sources are emerging.

A deregulated system is essential for new investment. Claims that benign ACCC oversight has created the certainty for a boom in pipeline construction do not stand up to scrutiny. There are just too many distorted investments, like the SEA Gas line in South Australia, and investments that have not proceeded, for this view to have any credibility.

We can never attain the Holy Grail of perfect competition, comprising many buyers and sellers in gas or other line-based supply industries. And even the ACCC acknowledges workable competition is better than the synthetic variety regulators must apply. But it is yet to recognize that as few as two sources of competition bring cleaner market outcomes than a regulator.

For a healthy and growing industry, regulation must be relaxed in three areas.

First, regulators should exit control over greenfield pipelines giving entrepreneurs time to profit fully from spotting opportunities for new pipelines without these being killed by price and service conditions.

Secondly, regulators should exit regulatory oversight where a load centre is served by more than one major pipeline serving.

Thirdly, for monopoly gas pipelines we should now move from the present price setting system. Essentially, this is profit-capping. Price-capping based on economy-wide price and productivity movements must be used to improve incentives for productivity gains.

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