



Australian
Competition &
Consumer
Commission

AER AUSTRALIAN
ENERGY
REGULATOR



Australian Competition and Consumer Commission

Twelfth ACCC Regulatory Conference

Regulating for the future

Thursday, 28 July and Friday, 29 July 2011

Sofitel Hotel, 249 Turbot Street, Brisbane, Queensland

As a regulator, the ACCC disseminates information that educates, informs and influences market participants. The annual regulatory conference brings industry participants, policy makers, academics and those involved in regulation together to hear and discuss the latest ideas about the theory and practice of regulation.



Program Day one Thursday, 28 July 2011

8.30 **Arrival/tea and coffee**

8.45–9.00 **Welcome: Graeme Samuel, ACCC Chairman**

9.00–10.30

Session 1

Is 'cost-of-service plus incentives' the best that we can do?

The UK regulatory framework for electricity transmission and distribution has been described as cost-of-service regulation with a fixed regulatory lag. In the same way, the building block model—which is the standard approach for regulating utilities in Australia—has been characterised as a form of cost-of-service regulation combined with various incentive mechanisms. Regulatory decisions have been getting longer and more complex, and debates over the cost of capital increasingly arcane. Is this the optimal form of regulation, or can we do better? Should we be looking to replace the current frameworks with some form of 'incentive regulation'? Or is it the case, as Paul Joskow suggests, that, 'in practice, incentive regulation is more a complement than a substitute for traditional approaches to regulating legal monopolies'. In this session we will hear the views of three distinguished international speakers.

Chair: Professor Stephen Littlechild, Judge Business School, University of Cambridge

Speakers: Professor David Newbery, Director of Research, Electricity Policy, Research Group, Faculty of Economics, Cambridge University

Dr Bill Tye, Senior Advisor, The Brattle Group, Washington DC

Professor George Yarrow, Director, Regulatory Policy Institute, Oxford

10.30–11.00 **Morning tea**

11.00–12.30

Session 2

The Evolution of Regulation: 20th century lessons and 21st century opportunities.

In the latter part of the 20th century most OECD countries embarked on a program of infrastructure reform. As part of the reform process governments moved away from their role as infrastructure suppliers, reduced barriers to entry and experimented with new forms of economic regulation. The experience of the United States—with much greater private ownership and a longer history of regulation—was an early point of reference of how to regulate and of how not to regulate. Professor Mayo will draw upon this material indicating what he thinks are some of the lessons for economic regulation in the 21st century.

Chair: Mark Pearson, Deputy CEO—Regulatory, ACCC

Speaker: Professor John Mayo, Professor of Economics, Business and Public Policy, McDonough School of Business, Georgetown University

Discussant: Dr Philip Williams, Executive Chairman, Frontier Economics

12.30–1.30

Lunch

1.30–3.00

Session 3

Improving the practice of regulation in Australia

What are the top three things that economists can contribute to improve the practice of network regulation in Australia? And what must economists themselves learn or better understand?

Chair: Dr Rob Albon, Principal Economist, ACCC

Speakers: Professor Paul Kerin, CEO, Essential Services Commission of South Australia and Professorial Fellow, Melbourne Business School

Dr Cento Veljanovski, Managing Partner, Case Associates and Adjunct Senior Research Fellow, Centre for Market and Regulatory Analyses, University of South Australia

Dr Philip Williams

3.00–3.30

Afternoon tea

3.30–5.30

Breakout session 1

Energy—What must be done to adapt the energy market to a low-carbon future?

The need to reduce carbon emissions is likely to require something of a transformation of the electricity industry. Is there a need to change the market rules or the way we regulate networks? Can these issues be addressed within the current market rules? Does the current market design need to be updated or overhauled? What are likely to be the key pressures in the future? The speakers from the UK have all considered these issues in detail and will be followed by Greg Houston bringing an Australian perspective.

Chair: Andrew Reeves, Chairman, AER

Speakers: Professor Richard Green, Director, Institute for Energy Research and Policy, University of Birmingham

Professor David Newbery

Discussant: Greg Houston, Director, NERA

Communication session—'Regulation 3.0'

Eli Noam has coined the phrase 'Regulation 3.0' to describe the next era of telecommunications regulation. What are the regulatory challenges created by the new market structures which emerge when there is large-scale fibre—rich access network deployment in a post-GFC world? Is the regulation of telecommunications changed by governmental focus on infrastructure upgrade and national competitiveness? What market structures are emerging globally for broadband delivery and where does wireless fit in these structures? What is the appropriate balance between competition regulation and governmental subsidies to deliver a universal broadband service? These and other questions will be discussed in this session.

Chair: Ed Willett, ACCC Commissioner

Speaker: Professor Eli Noam Professor of Finance and Economics, Columbia Business School and Director Columbia Institute for Tele-Information

Discussants: Professor John Mayo

Caroline Lovell, NBN Co.

7.00–10.30 pm

Conference dinner

Conference dinner Speaker: Graeme Samuel, 'Acronyms, admonitions and other trials of public life'

Program Day two Friday, 29 July 2011

8.00–8.30

Arrival/tea and coffee

8.30–10.00

Breakout session 2

Water—The development of rural water markets in Australia: Assessing progress, looking ahead

Since the 1990s, water markets have continued to develop in the Murray Darling Basin (MDB). Large volumes of water in some products are now being traded and it is generally accepted that water trading has provided a number of benefits for irrigators in the Southern MDB such as flexibility in farm management—particularly in addressing seasonal fluctuations in water availability and managing the effects of drought. However, water markets in other areas remain relatively underdeveloped. To what extent can the National Water Initiative and other intergovernmental reforms be considered successful? Are there factors that have been overlooked as water markets have developed in the Basin? What further reforms should take place in relation to rural water?

Chair: Sebastian Roberts, General Manager, Water Branch, ACCC

Speakers: Chloe Munro, Chair of the National Water Commission
Peter Gooday, General Manager, Productivity, Water and Social Sciences Branch, Australian Bureau of Agricultural and Resource Economics and Sciences.

Discussant: Professor Mike Young, Executive Director, The Environment Institute, University of Adelaide

Transport—What can we learn from the international experience of airport regulation?

The economic regulation of airports, and the appropriate form and coverage of regulation, has been debated at length in Australia and many other jurisdictions. But what have we learnt? Is there some consensus on the preferred regulatory approach? Should we be trying to encourage negotiated outcomes? Which regulatory approach provides the best incentives for allocative and productive efficiency? Should we be concerned about the airports' incentives to invest? Professor Littlechild's presentation will focus on experience in Australia, the United Kingdom and Germany.

Chair: Anthony Wing, General Manager, Transport and General Prices Oversight Branch, ACCC

Speaker: Professor Stephen Littlechild

Discussant: Professor Peter Forsyth, Department of Economics, Monash University

Professor Hans-Martin Niemeier, Institute of Transport Development, Bremen University of Applied Sciences.

10.00–10.15

Session change and short break

10.15–11.15

Breakout session 3

Finance—Does the market risk premium change over time?

In Weighted Average Cost of Capital (WACC) calculations there has traditionally been considerable reliance on the use of historical data to calculate the market risk premium (MRP). But what if the MRP changes over time? Is there a sound methodology for measuring the forward-looking MRP? On what factors should the MRP depend? Can we learn anything from forward markets or indicators of market volatility? In this session Professor Jagannathan and Toby Brown will draw on their experience in cost-of-capital proceedings in the US to discuss the theoretical and practical issues associated with determining the MRP.

Chair: Chris Pattas, General Manager, Networks, AER

Speaker: Professor Ravi Jagannathan, Chicago Mercantile Exchange/
John F Sandner Professor of Finance and Co-Director,
Financial Institution and Market Research

Discussant: Dr Toby Brown, The Brattle Group, San Francisco

Legal—Review of regulatory decisions: Trends

What have been the main developments since the mid 1990s when regulatory decisions became subject to merits review by the Australian Competition Tribunal and other bodies? The first speaker will outline the seminal decisions and how these decisions have shaped regulation in Australia. The second speaker will discuss developments in the practice and procedure of the Australian Competition Tribunal.

Chair: Dr Jill Walker, ACCC Commissioner

Speakers: Harriet Gray, PhD student, Australian National University
(previously, Counsel, ACCC Regulatory Law Unit)

Peter R D Gray, Victorian Bar

11.15–11.45

Morning tea

11.45–1.00

Session 4

Q&A Session with a panel of experts: Reducing the 'footprint' of the regulator

This session will feature a free-flowing question-and-answer session drawing on questions submitted by conference delegates and answers from a panel of experts. The session Chair will seek to ensure that panellists stick to strict time limits in responding to questions and that a range of views are heard.

Conference participants will have the opportunity to submit questions in advance of (and possibly during) the session. Questions may be submitted via email or SMS, to an address that will be provided at the start of the conference.

Questions are invited on the following themes:

- Resisting the trend to increasing length, complexity and micro-management
- Empowering consumer groups
- Long-term contracts as a benchmark
- Re-working the relationship between prescription and certainty
- Regulating government vs privately owned businesses

Chair: Joe Dimasi, ACCC Commissioner

Panel: Professor Eli Noam, Rod Shogren, Member, Australian Communications and Media Authority and Member, the Australian Competition Tribunal, Dr Cento Veljanovski, Professor George Yarrow

1.00–2.30

Lunch



Registration and further information

Conference registration should be lodged with the ACCC and a completed registration form (one form per person) emailed to Regulatory.Conference@acc.gov.au

Or mail:

2011 Regulatory Conference
ACCC
GPO Box 520
Melbourne VIC 3001

Cost

Per person: \$1250 (includes GST)

Group discount (three or more): \$1150 (includes GST)

RSVP by 31 May 2011—payment is due with registration.

For any further information about registration email: Regulatory.Conference@acc.gov.au

General information

Accommodation

The ACCC is not responsible for booking accommodation. Delegates need to make their own bookings. A substantial block of accommodation has been set aside for conference delegates at both the Brisbane Sofitel Hotel and Novotel Hotel.

To book this accommodation, contact Your Next Event at www.nextevent.com.au.

Transport

Transfers to and from Brisbane Airports is available as part of the conference registration fee. To book your transfers, contact Your Next Event at www.nextevent.com.au