

# Improving the Practice of Network Regulation in Australia

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*Twelfth ACCC Regulatory Conference:  
Regulating for the future*

Brisbane, July 28-29, 2011

# Top 3 things economists can contribute

1. Highlight (potential) first-best solution(s)
2. Highlight limitations of “partial” regulatory optimisation versus unconstrained optimisation – and the impediments preventing the latter
3. Apply constrained optimisation approach to our own work

# 1. Highlight (potential) first-best solution(s)

- Even if legislative/other constraints seem to rule it out for now...
- ...identify trade-offs – opportunity costs of not changing current system

## 2. Highlight limitations of “partial” regulatory optimisation

- Regulation can be valuable:
  - particularly if other instrument settings taken as given
  - as part of an optimised solution
- But other instruments may be more valuable (and make regulatory job easier) ...
- ...and an optimised solution more likely if economists:
  - are modest re the value of “partial” regulatory solutions
  - identify key constraints on other instruments and their shadow costs
  - treat regulation as a last resort, not a first port of call

### 3. Apply constrained optimisation approach to our own work

➤ Example:

$$\frac{MB}{MC} \text{ (asset values)} = \frac{MB}{MC} \text{ (cost of capital)}$$

➤ We usually do WACC to death, but sometimes apply it to an irrelevant number

# What must economists themselves learn?

1. Communicate, communicate, communicate!
2. Don't automatically assume constraints as given
3. Know where to draw the line

# 1. Communicate, communicate, communicate!

- Getting “right answer” isn’t enough
- “Fit for purpose” communications
  - simpler, punchier communications for public communications
- Greater willingness to engage in public communications

## 2. Don't automatically assume constraints are given

Don't:

- Second-guess what's politically acceptable
- Get “captured” by the agenda of the party currently in government
- Just administer what's there

### 3. Know where to draw the line

- Say what's right, not what client wants to hear
- Withstand temptations that come with competition in the economic advisory market
- Beware self-capture