VECC INTERROGATORY #16

INTERROGATORY

Reference: The Report, page 3, lines 15-21

Preamble: “developing policies that allow competition”
“efficiency considerations”

a) Is Pareto Efficiency a relevant consideration in these circumstances (i.e., a proposed policy change is more efficient if it harms no one and improves the lot of some people)? If not, why not? If yes, please explain how allowing competition in unserved or underserved locations meets the requirements of Pareto efficiency.

RESPONSE

Pareto efficiency is a measure of efficiency that is far more relevant in theory than in practice. In theory, any policy that improves efficiency can be pareto efficient through cross-subsidization of those who are directly harmed by those who directly benefit from a policy. Actually accomplishing those transfers in practice without dissipating the efficiency gains through transaction costs is sufficiently difficult that the necessary transfers to achieve a pareto optimal solution is rarely attempted.

For this reason, the Report’s author does not consider the concept of pareto efficiency to have significant relevance outside of economic textbooks. The relevant insight that can be gained from consideration of the concept of pareto efficiency is that policies that enhance efficiency but also have significant distributive effects (i.e., efficiency gains are small relative to the transfers of wealth or income) may not make society better off.

The proposals contained in the evidence do have significant distributive effects. Such effects are avoided by confining the scope of competition so that assets are not stranded on an aggregate basis. To illustrate, where a customer chooses an alternate distributor that uses its own upstream assets, the incumbent may have less utilization of its upstream assets, but the aggregate utilization of the assets of the two distributors is not reduced. On the other hand, if an existing customer of an incumbent switches to a new distributor that utilizes new duplicative assets, the aggregate utilization rate will be decreased and overall efficiency will be reduced. This latter outcome is avoided by maintaining a monopoly for the distributor that wins the right to serve an unserved or underserved customer.