

# Hector the Regulator and waste regulation

My name is Hector. I am doing a special project to help Smelly the Binman with the structure of his waste collection charges.



Because of their strong natural monopoly features, waste management services cannot be provided by a well-functioning market.

Independent recyclers have been eating away at my monopoly a bit. But I'm safe on bulk handling of non-recyclable waste, there is no other local treatment plant that can deal with that.



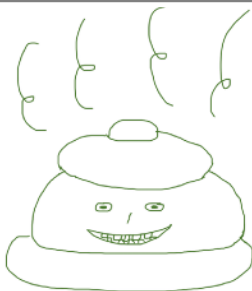
My regulator has told me that revenue caps were a problem because a price increase for the more elastic services could lead to a less than proportionate increase (or potentially a decrease) in revenues, allowing the operator to set higher prices, choking off demand, reducing its costs and increasing its profits to the detriment of customers, whilst still meeting the overall revenue cap.

For example, a regulatory regime that would have a total revenue cap and at the same time allow or encourage network owners to apply high deterrent charges in areas of the network which are close to needing reinforcement would be totally stupid. Good point, Smelly!



My regulator defines efficient tariffs as those that maximise the long run consumers' welfare.

In doing this, they abstract from the impact on competition that exists for some services.



They also said that charges should reflect differences in demand across service (Ramsey pricing).

This means that in presence of a multiproduct firm with market power in the provision of most or all of its services, welfare is maximised if the mark-up of common costs is higher for products with a low elasticity of demand than for those with a high elasticity of demand.

So I figured that the way to go was to get all my profits from non-recyclable waste treatment; to bundle recycling in my new all-inclusive collection contract; and to raise bulk treatment fees for non-recyclable waste up to the retail-minus level, to so as to retain the economies of scale of my collection business.

That's not anti-competitive: it's maximising long run consumers' welfare.



## Shameless plug

Have you been hurt by a monopolist whose regulator did not understand competition?

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