

ABSTRACT

TECHNICAL INEFFICIENCY AND PRODUCTIVE DECLINE  
IN THE U.S. INTERSTATE NATURAL GAS PIPELINE  
INDUSTRY UNDER THE NATURAL GAS POLICY ACT

The purpose of this paper is to examine the primal production technology of the interstate natural gas pipeline industry during a period (1977-85) in which the industry faced severe changes in the regulatory environment. We utilize a newly constructed panel data set of firms that comprise almost 90% of the industry. We find that during the first six years of partial price deregulation, there was a marked decline in productivity. The only firms which maintained positive productivity rates were those with relatively large and growing transport services for others. We also find that firm-specific average efficiency rankings were strongly and negatively correlated with firm size. We conjecture that this may be due to the rate base regulation in the industry and the relative ease with which larger firms can pad their base and produce at levels that are inconsistent with frontier levels of production.