

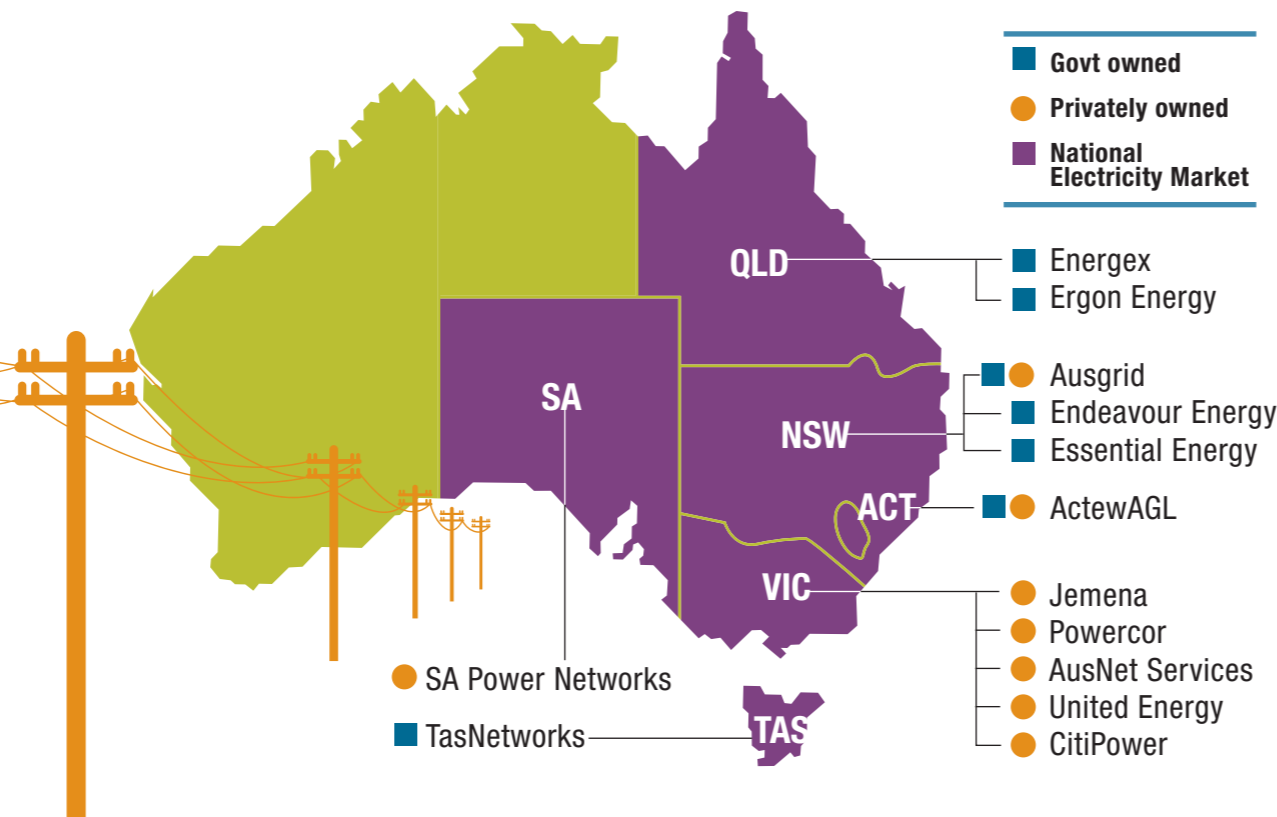
BACKGROUND

HOW ELECTRICITY DISTRIBUTION NETWORKS' REVENUES ARE SET AND REVIEWED

NETWORK CHARGES ARE REGULATED

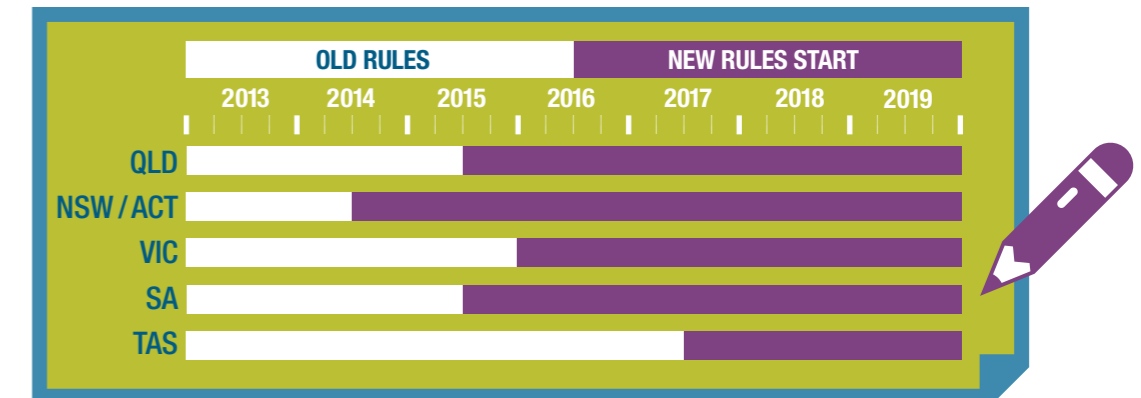
Distribution network businesses manage billion dollar investments in electricity poles and wires. They are natural monopolies. Their revenue is regulated.

Distribution network charges make up about 38% of the bill for a typical residential customer.



AER CONDUCTS FIVE YEARLY REVIEWS

The Australian Energy Regulator sets the revenue allowances that network businesses recover from consumers for the poles and wires services they provide. Revenues are reviewed every five years. In 2012 the AEMC made new rules to improve the strength and capacity of the AER to approve appropriate revenue allowances for network businesses.



AER DETERMINATIONS CAN BE REVIEWED BY THE AUSTRALIAN COMPETITION TRIBUNAL UNDER THE LIMITED MERITS REVIEW REGIME



2008	2012	2013	2014	2015	2016
<p>Governments introduced the Limited Merits Review Regime.</p> <p>← By 2011 all but one electricity distribution network business had sought a tribunal review of its revenue allowance. →</p>	<p>New rules made by the AEMC gave the AER more discretion to question business expenditure forecasts; provided flexibility as to how it determined the revenue allowances; and improved consumer participation in the determination process.</p>	<p>Energy Ministers amended the Limited Merits Review Regime following a review that found the regime was not working.</p>	<p>AER progressively undertakes revenue determination process in line with the new rules.</p>	<p>AER set network revenues in NSW, ACT, SA, Qld. All distribution businesses except Qld sought merits review, with the businesses requesting higher revenues and consumer groups seeking lower revenues for the businesses.</p>	<p>February: Australian Competition Tribunal released NSW and ACT merits review decisions agreeing with network businesses on a number of issues and the AER on others.</p> <p>March: AER applied to Federal Court for judicial review of Tribunal decisions for NSW and ACT businesses. Decision is expected in 2017.</p> <p>April: AER determination reduced network revenues for Victorian businesses. The businesses have applied for merits review.</p> <p>October: Tribunal upheld the AER's determination for SA, denying the SA network business more revenue.</p> <p>November: SA business applied to Federal Court for judicial review.</p> <p>In August a government review of the Limited Merits Review Regime was announced. It will consider options to reform the Regime in the interests of consumers. Final advice is due in December.</p>