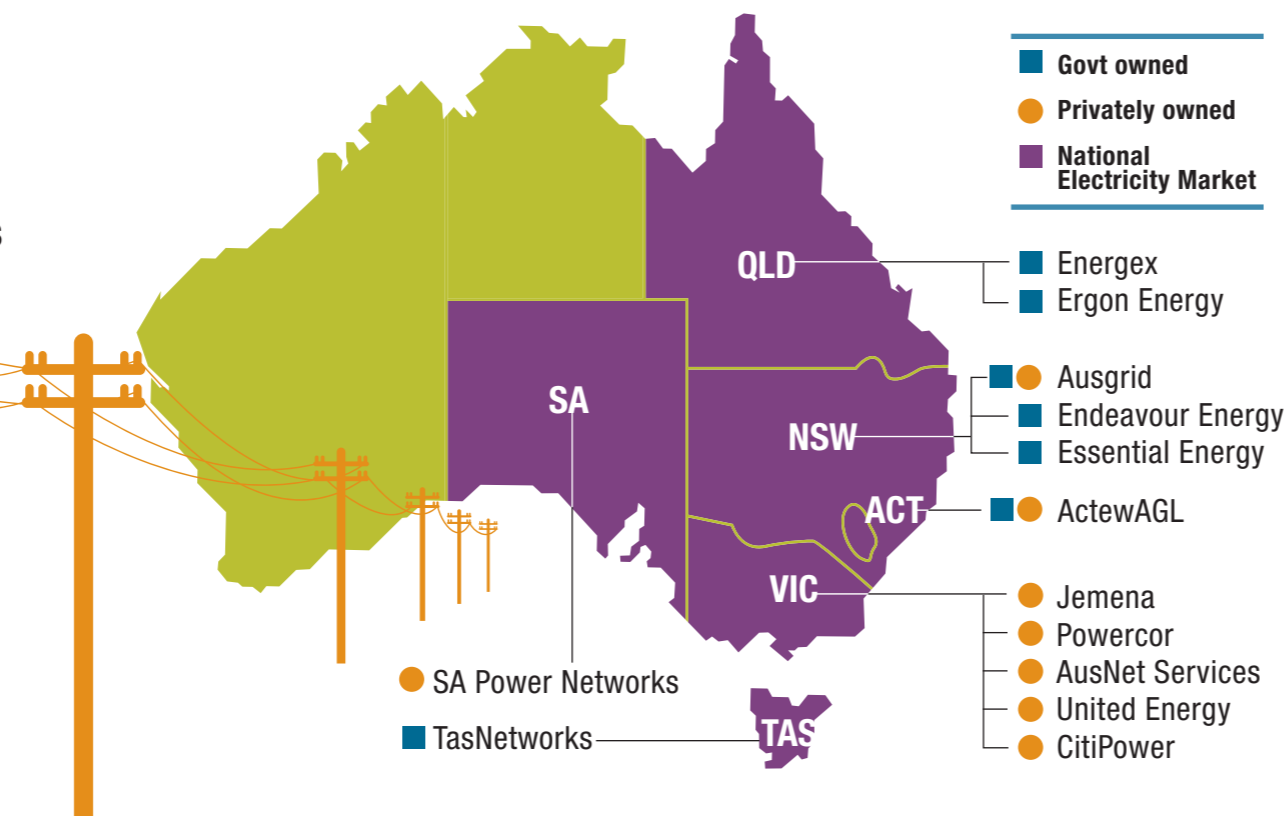


HOW ELECTRICITY DISTRIBUTION NETWORKS' REVENUES ARE SET AND REVIEWED

NETWORK CHARGES ARE REGULATED

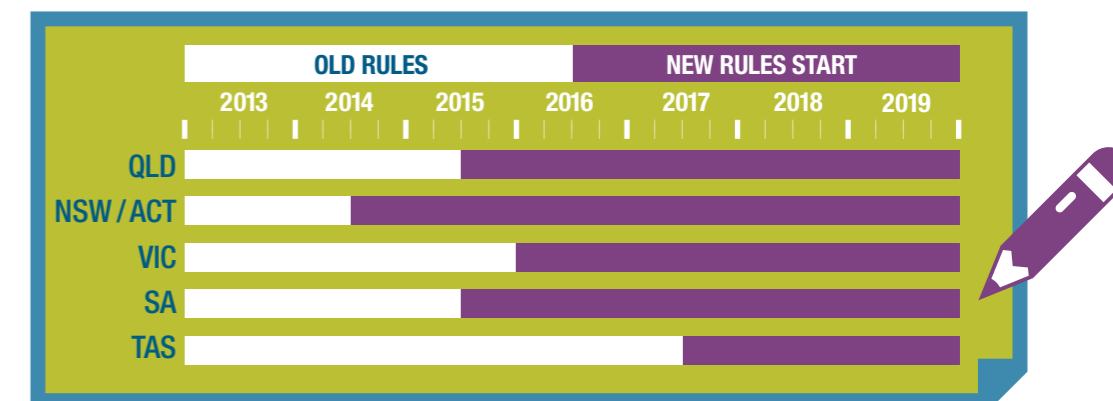
Distribution network businesses manage billion dollar investments in electricity poles and wires. They are natural monopolies. Their revenue is regulated.

Distribution network charges make up about 40% 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 poles and wires services. Revenues are generally 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	2017
<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 representatives of consumers 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.</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 business, which then applied to Federal Court for judicial review.</p> <p>In August 2016 a government review of the Limited Merits Review Regime was announced. It will consider options to reform the Regime. Final advice is due in 2017.</p>	<p>Tribunal decision for Victorian businesses, and Federal Court decisions for NSW, ACT and SA businesses, are all expected in 2017.</p>