

AUSTRALIAN ENERGY MARKET COMMISSION

NETWORK REGULATION RULE CHANGES

DRAFT DETERMINATION 23 AUGUST 2012

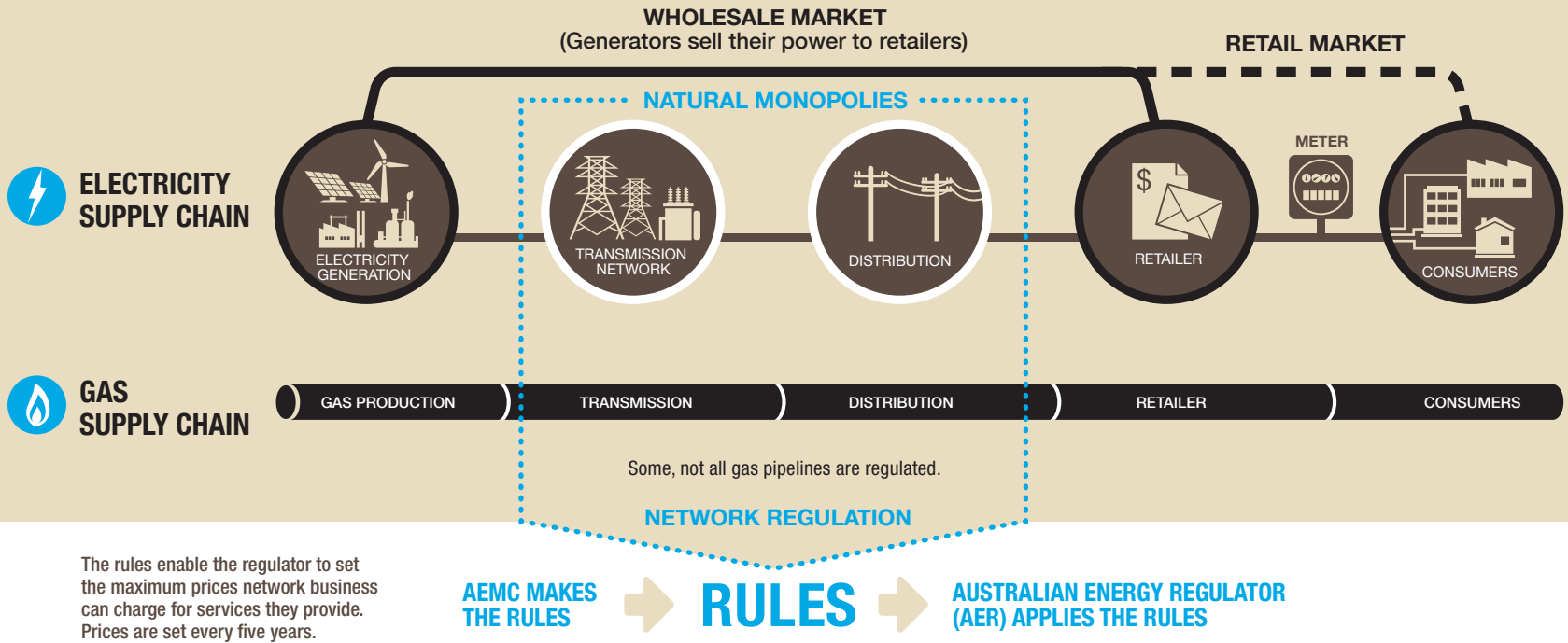
We are proposing new rules to better equip the Australian Energy Regulator to set network prices so consumers don't pay more than necessary for reliable supply of electricity and gas.

The new rules allow the AER to adjust its approach to the nature of the business it is regulating. They require the AER to release reports on network business performance.

Since the rules were first developed the environment has become more dynamic. Reasons for this include:

- rapid growth in peak demand that requires more infrastructure;
- falling overall demand;
- increased current reliability requirements; and
- changed costs associated with post-GFC capital markets.

The AEMC's draft determination seeks to promote efficiency in this changing environment, providing regulation that is adaptive.



The rules enable the regulator to set the maximum prices network business can charge for services they provide. Prices are set every five years.

INPUTS TO NETWORK PRICES

There is no single cause of the rising costs of network infrastructure. Prices are impacted by the external environment such as electricity demand, the cost of capital, and the reliability standards expected by the community. Regulation is aimed at promoting efficiency. Price outcomes are also impacted by the effectiveness of management and shareholder oversight of network businesses.

