

Our Ref: M2005/281
Your Ref: Craig Chambers
Contact Officer: Jeremy Romanes
Contact Phone: (03) 9290 1430

4 September 2006

Mr Craig Chambers
General Manager
GridX Power Pty Ltd
76C Wilford Street
Newtown NSW 2042

By email: cachambers@gridxpower.com

Dear Mr Chambers

**GRIDX POWER PTY LTD
APPLICATION FOR NETWORK SERVICE PROVIDER EXEMPTION**

I refer to your revised application to the Australian Energy Regulator (AER) dated 22 April 2006 requesting that the AER grant GridX Power Pty Ltd (GridX) a network service provider exemption.

As you are aware, your application for an exemption from the requirement to register as a Network Service Provider (NSP) under the National Electricity Law (NEL) has been under close examination by the AER. In progressing your proposal, the AER released an Issues Paper on GridX's application on 9 April 2006. Submissions were requested by 14 July 2006 and all submissions received on the Issues Paper are available on the AER website at www.aer.gov.au. In addition, you have provided some further information in your email and written correspondence to us dated 20 June 2006.

This letter is now seeking further information from GridX in the light of the public responses to the AER Issues paper on the GridX proposal.

Responses to the Issues Paper

As you may have gathered from the responses received to the Issues Paper, there are a number of matters (including those detailed below) that do not appear to be addressed with sufficient depth and clarity within GridX's current application and for which we seek further information from you.

In considering your application, it is necessary for the AER to form a view as to whether or not granting your application either unconditionally or conditionally would result in customers of your network being placed at a material disadvantage relative to customers otherwise connected in accordance with the provisions of the national electricity market. On the information currently provided, we consider it difficult to determine whether customers connected to an exempt GridX-type network would be at a material disadvantage in comparison to customers connected to a conventional distribution network, with access to competitive energy retailers. Likewise, on the information currently provided, it is not possible to adequately assess whether granting GridX a specific or general exemption at this time clearly meets or furthers the Market Objective set down in clause 7 of the National Electricity Law (NEL).

Issues raised by stakeholders

Below is a brief summary of some of the main issues that have been raised by stakeholders in their submissions, and some of the main issues that need to be addressed by GridX in greater detail, in order to facilitate further consideration of your application.

Access to Full Retail Competition:

Several respondents note that the establishment of the National Electricity Market (NEM) is predicated upon the assumption that the best interests of customers are served by access to a competitive market, and where access to a competitive market is restricted, a clearly demonstrated benefit must be established.

We would appreciate your further advice in respect of the following questions:

- What is the detail behind how GridX's retail prices would be established, particularly in the absence of price caps?
- Would customers ever have the option of obtaining electricity at a retail price lower than that to be charged by GridX?
- What alternative options would exist if customers were no longer happy with GridX's retail or service offering?

Licensing Arrangements:

As you have noted in previous correspondence, GridX is not required to hold a distributor's or generator's licence in NSW. NSW distribution licences cover a wide range of matters, including the obligation to provide customer connection services on standard terms (including price and service / reliability / quality / safety levels) customer service standards, requirements in relation to the commercial separation of retail and distribution activities, last resort supply and retail transfer arrangements, the requirement to operate a faults and

difficulties hotline, emergency procedures, network use of system arrangements as between the distributor and relevant retailer, credit support and prudential arrangements, interruptions, repairs and street lighting standards, billing information disclosure, dispute resolution procedures and the Ombudsman Scheme, disconnection policy and standards, service standard variation procedures and reporting and compliance management obligations.

In the absence of the requirement to hold a distributor's licence, it is not clear how GridX proposes to provide the customer protection arrangements set down in the *Electricity Supply Act 1995 (NSW)* (the Act) and the *Electricity Supply (General) Regulation 2001 (NSW)* and outlined above. How does GridX intend to provide these customer protection measures?

Similarly, under NSW legislation, it is unclear to us whether GridX is required to apply for and hold a retailer licence.

- Does GridX intend to apply for a standard retail supplier's licence, or retail suppliers' licence?
- What terms and conditions does GridX propose will appear on that licence?
- Does GridX intend to provide public lighting, and how does it intend to recover the costs of providing this service?

Responsible Person

Under a current NSW derogation to the NER, the 'Responsible Person' in respect of metering arrangements is currently the local area distributor for a particular customer.

- Has GridX given consideration to who would be the 'Responsible Person' for metering installations for customers located within a GridX network?
- Has GridX discussed responsible person arrangements with Integral Energy, if it does not intend to become registered as a distributor?
- What type of metering arrangements does GridX propose to install within its proposed network?

Retailer and Distributor of Last Resort:

Several respondents note that there is a clear legislative intention that Retailer of Last Resort (RoLR) scheme be provided to reinforce competition arrangements.

- What are the transfer terms and conditions, and commercial and financial risk-allocation arrangements that would apply if GridX was unable or unwilling to continue to supply retail or distribution services?
- Has GridX discussed RoLR arrangements that might apply with Integral Energy, or any other registered network operator?

Technical Standards:

Several respondents have indicated that although GridX has agreed to be bound by the technical requirements stated in chapter 5 of the NER, these standards relate to the interconnection between a proposed GridX network and that of the adjoining distributor. Chapter 5 technical standards generally do not provide protection for customers located

downstream of this connection. Customers served by GridX should be assured that all elements within a GridX network will be built to a suitably high standard, and maintained, replaced or upgraded as required.

- What mechanisms are in place to ensure these standards are upheld, particularly with regard to GridX's intended distribution network?

Network planning issues:

We note that GridX contends that one of the benefits of the GridX network model is to relieve constraints in an existing distributor's network. It is not clear that such constraints will always exist, particularly over time as networks expand to meet growing capacity.

- Has GridX considered the operation of future access and planning arrangements with existing distributors, and how these may best be handled?

Quality and Reliability

Several respondents note that quality and reliability of supply within a GridX-type network is likely to fall below that of a conventional network, as the GridX electricity generation model is reliant on gas supply, and different (and arguably lower) standards apply to the delivery of gas than to the delivery of electricity.

- Has GridX investigated whether quality and reliability of electricity generated exclusively from reticulated gas is or will be the same or higher than electricity supplied under conventional distribution arrangements?
- Has GridX considered any contingency plans to improve the quality and reliability of supply, to ensure that customers connected to a GridX-type network are not at a material disadvantage in respect of these elements vis-à-vis customers supplied through conventional networks?
- What emergency plans and/or procedures will exist should the gas supply be interrupted for any period?

We expect that you would like to supplement your current application with responses to the issues raised in consultation, and we invite you to do so by 18 September 2006 if we are to maintain the current schedule for the consideration of your application. Please let the AER know if this date is not feasible.

We look forward to your response. To discuss your application further, please contact Paul Dunn or Jeremy Romanes of this office in the first instance.

Yours sincerely



Chris Pattas
General Manager
Networks Regulation South