



Ref: JC:JC:C216333

14 July 2006

Mr Sebastian Roberts  
General Manager  
Networks Regulation South  
Australian Energy Regulator  
GPO Box 520  
**Melbourne VIC 3001**

Dear Mr Roberts

**Issues Paper – GridX Power Pty Ltd Application for Network Service Provider Exemption**

Country Energy would like to thank the Australian Energy Regulator (AER) for the opportunity to respond to GridX Power Pty Ltd's (GridX) application for an exemption from the requirement to register as a network service provider (NSP).

After consideration of the GridX application and the facts presented in the AER's issues paper, Country Energy does not believe that the AER should grant GridX the requested general exemption from the requirement to register as a NSP. The reasons for this are articulated in the responses presented below to the questions raised by the AER in the issues paper.

**Is it desirable to determine GridX's application at this time? If not, how should the resolution of GridX's application for exemption proceed?**

Whilst Country Energy can see some merit in the concept proposed by GridX, we believe that there is not the required level of detail and certainty in either the application itself or the current national market reform process, to warrant granting the general exemption at this time. The reasons for this are explained in further detail below.

**Is the granting of an exemption for GridX likely to advance the NEM objective particularly, is it in the long term interests of consumers with respect to price, quality, reliability and system security?**

Country Energy believes this is the critical area where the application falls short of what would be required to support such an exemption request.

The objective of reliability does not seem to be satisfied by the proposal, as there is no backup source of supply should the embedded network or natural gas supply fail. To this end, Country Energy does not understand why GridX has not allowed for the importation of electricity from the local NSP that would contribute somewhat to alleviating this concern.

Country Energy also believes the application is not consistent with the concepts of customer choice and retail competition, and therefore is unlikely to advance the NEM objective of customer interest in terms of price. As there would not be open access to the GridX network for retailers, customers would be captured by the GridX offer. While in the interim, an acceptable outcome for customers may be to pay the regulated price plus a green allowance,

there are no guarantees for the long term, especially if regulated retail prices are removed in the future. Even if retailers were granted access by GridX, there is no guarantee that any would accept this offer as the terms and conditions of access, and the pricing of the generated energy may not be satisfactory or attractive enough to entice competitors.

From Country Energy's reading of the GridX application, it appears customers best case pricing scenario may be the regulated price path plus an unknown allowance for renewable energy. Without choice in retailers, customers will never have the opportunity to obtain a cheaper price than that on offer from GridX. The other benefit of retail competition is that customers have a choice to move retailers if they are not happy with the service being provided by their current retailer. This option does not appear possible from Country Energy's reading of the GridX application.

For the reasons outlined above, Country Energy believes the current GridX application does not advance the NEM objective, and therefore Country Energy cannot support the granting of an exemption at this point in time.

**Is it appropriate to grant GridX a general exemption from the requirement to register as a NSP, or is it appropriate to grant GridX an exemption on a project by project basis?**

Country Energy believes that it is inappropriate to grant GridX a general exemption as market arrangements in each jurisdiction are currently inconsistent and fragmented, and the GridX application is unclear and uncertain in many areas.

**What (if any) are the nature of the conditions on exemption that the AER should apply in respect to retail pricing?**

Given the limitations and uncertainties surrounding the application described in this response, and our view that the exemption should not be granted, Country Energy does not believe this question is applicable at this stage.

**Do current and future retail price cap arrangements in place in NSW provide retail consumers with sufficient protection from potential price gouging behaviour?**

Given the uncertainty in the market surrounding the future direction of retail price caps in all jurisdictions, Country Energy does not believe that potential GridX customers would be sufficiently protected from potential price gouging behaviour, due to a lack of choice and their captured nature.

**If the AER granted GridX an exemption from registration, what additional measures should be implemented to ensure that electricity consumers (or potential consumers) receive timely advice as to the electricity retail arrangements peculiar to any estate on which GridX type networks might operate?**

Whilst Country Energy agrees this would be an important issue for customers in an estate of the type described by GridX, Country Energy believes there are many other equally important issues described throughout this response that would need to reach an acceptable solution before this communication issue would need to be contemplated. In any case, Country Energy does not believe there is currently enough clarity or certainty to be able to communicate adequately and effectively with customers.

**Are there any further issues relevant to the consideration of GridX's application that have not been discussed in this Issues Paper?**

Country Energy would like to raise some further issues that were not discussed in any detail in the issues paper or the GridX application. Country Energy would like to see more

information surrounding the arrangements that would occur if GridX ceased to be involved in the operation of the project for any reason. Country Energy does not believe the issues paper and application is clear on who would become responsible for supplying and retailing to these customers.

The assets may not be satisfactory or capable of allowing supply from the distribution network, therefore it may be necessary to insist that the GridX network be built to the local NSP standards and that the ability to import from the local NSP distribution network be made compulsory. Likewise, Country Energy has some concerns with the situation where the embedded network needs replacement or major upgrades, or its operation becomes uneconomical. GridX may decide not to proceed with the operation of the embedded network, in which case the cost and burden of replacing the assets or building a new network would most likely be then imposed on the local NSP.

It is also not clear on the arrangements that would be invoked in the case of GridX ceasing to operate as a retailer. Two key issues surrounding this uncertainty that need to be addressed before granting an exemption are who would become responsible for the customers, and would they be obliged to offer the exact GridX terms and conditions in place at the time, which may or may not be attractive to competitors.

While GridX state that only excess electricity will be exported to the national electricity grid, Country Energy believes that customers need more surety and comfort from GridX that they will always take priority. GridX is a commercially focussed organisation and it is not clear from the application that GridX could not feasibly establish arrangements whereby it could also export into the national electricity grid at times of high pool price events at the expense of customers.

In their application, GridX also mention a benefit of their proposal is outstanding customer service, however this appears to only cover informative billing issues. It is not clear on how GridX propose to address the other numerous customer service issues that may arise on a day to day basis as a result of their generation, distribution and retail activities.

If you require further information or clarification in relation to this submission please feel free to contact Jason Cooke on (02) 6338 3685 or myself on (02) 6589 8419.

Yours sincerely

Natalie Banicevic  
**General Manager Regulatory Affairs**