GRIDX POWER PTY LTD ABN 22 100 209 354

GRIDX power to excel

Harcourt Business Park
Unit 16, 809 - 821 Botany Road
Rosebery NSW Australia 2018
(entrance off Harcourt Parade)
T: +61 (2) 8335 3333
F: +61 (2) 8335 3330
E: info@gridxpower.com

10 December, 2007

Mr Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Buckley,

Re: Issues Paper – Matters relevant to distribution determinations for ACT and NSW DNSPs for 2009-2014

Thank you for the opportunity to respond to the AER's consultation on the distribution determinations for the period between 2009 and 2014.

GridX Power Pty Ltd ("GridX") is a distributed generation provider that uses natural gas to produce electricity and thermal energy services, being primarily chilled water for air conditioning and hot water for heating. District supply schemes such as those installed by GridX provide a unique and useful perspective to the National Framework. The benefits of distributed energy generation from natural gas are:

- Improved energy efficiency;
- Dramatically reduced emissions of greenhouse gases;
- Cheaper cost of generation;
- A reliable source of electricity generation
- Efficient allocation and use of capital; and,
- The provision of a demand management solution for electricity networks.

Our residential tri-generation system at Glenfield, NSW has achieved significant reductions in electricity demand. These homes have an average peak demand of 2.5 kW on a hot summer day[1], significantly less than what could be expected of a home with a conventional electricity supply located in the same area.

Successful integration of demand side initiatives, as an alternative to "business as usual" grid development where it is economically prudent, is absolutely key to ensuring that economically efficient electricity distribution network rules and regulation do in fact emulate the effects of a competitive market. Regulation that allows and encourages the installation of distributed generation and other demand management solutions will reduce poor investments by network monopolies, reduce inefficiencies in the industry, and will deliver sound economic and environmental benefits. It is pleasing, as a distributed generator and an electricity consumer, to see that there is a greater recognition of the existing economic inefficiencies, and that these inefficiencies are being addressed.

We have responded to Section 2 of the Issues Paper (Demand Management Incentive Scheme) as follows:

[1] On 21 January 2007 the temperature peaked at 41 °C in western Sydney

Co-ordination between Regulatory Bodies

While GridX welcomes any regulatory review of demand management and/or distributed generation, there should be a greater co-ordination between the reviews undertaken by the MCE, AEMC and AER which are similar or in fact have objectives which are overlapping. Currently it appears that all of these government bodies are involved in the development of the National Electricity Rules. The effect of the existing organisational structure is that proponents of demand management schemes are uncertain as to which national regulatory body is best placed to implement rule changes that would promote this scheme.

D-factor mechanism

In NSW the D-factor mechanism is an appropriate means of promoting demand management initiatives without reducing the economic position of DNSPs. GridX agrees that it is an approach that is best suited to network areas which use a weighted average price cap form of network regulation. It enables DNSPs to raise prices to both recover the costs of implementing the initiatives, and the recovery of any lost network revenue.

However it is clear from the 2007 IPART information paper[2] that despite the existence of the D-factor mechanism, the participation of DNSPs in demand management initiatives has been limited, with only $8.26 million spent on programmes in the two years to June 2006. The current cost to the electricity consumer is not significant, and as the IPART information paper indicates the highest D-factor to date has been 0.005 percent which will (on IPART's calculations) only increase residential bills by 5 cents a year. However it has enabled the DNSP to spend as much as $3.6 million on demand management implementation.

GridX recommends a review of the D-factor, with the aim of ensuring that DNSPs do in fact receive full recovery of undertaking demand management schemes and of any lost revenue. This review will need to recognise the fact that the project lifetimes of some demand management initiatives extend well beyond the relatively short, five year regulatory period for distribution networks.

GridX notes that some of the consumer group feedback to the AER on the D-factor was that "residential consumers' demand is price inelastic". Further on in the Issues Paper was the statement that there are limitations on price signals being used to indicate to consumers that a particular section of the network is constrained. GridX believes that in the current regulatory environment the price elasticity of demand for electricity is limited due to (i) regulated retail pricing set at low levels (ii) retail pricing that does not include a time-of-use structure. As such GridX is of the view that price signals do have the potential to reduce demand, and that a positive D-factor value (a price signal) can further encourage the efficient use of electricity.

GridX does not believe that the implementation of a D-factor mechanism is required for the ACT, for reasons explained below.

"Learn by Doing" Fund

GridX suggests that a "Learn by doing" fund for demand management activities be introduced in both NSW and the ACT.

[2] NSW Electricity Information Paper No 2/2007 – Demand Management in the 2004 distribution review: progress to date

In the ACT the current method of economic regulation of the distribution network is the average revenue cap mechanism. ActewAGL is currently protected under this mechanism from lost network revenue as a result of any demand management activities. The introduction of a Learn by Doing fund in the ACT would enable ActewAGL to avoid any additional costs associated with the implementation costs of demand management activities.

In NSW the D-factor is well established and under its mechanism the DNSPs are able to recover both the lost network revenue as a result of demand management activities and the program implementation costs. However given the small take up of demand management projects in NSW to date, it is clear that DNSPs need to be encouraged to trial projects in order to gain a familiarity with undertaking these initiatives in their network areas. A Learn by Doing fund would compensate the network companies for approving these pilot schemes.

We hope that this information will prove useful in your preparations for the 2009-2014 distribution determinations.

Yours sincerely,

Craig Chambers
Chief Operating Officer