



15th September 2006

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Dear Mr Pattas

GridX Power Pty Limited – Application for Network Service Provider Exemption

I refer to your letter dated 4 September 2006 and request for further information. In response to the specific issues raised in your letter we set out below our reply, together with some more general comments we wish to make accordingly.

1 General comments

It is apparent from the Submissions received in reply to the Issues Paper that the respondents are generally supportive of innovative alternative distributed generation arrangements, such as the GridX proposal, provided these can provide a supply of electricity which does not place customers at a significant disadvantage when compared to the standard supply across the national electricity grid.

It is also apparent from some of the Submissions received that the network component of the GridX proposal has not always been fully understood. As indicated in our letter dated 19 May 2006 (the **Proposal**) the GridX system will generate electricity from natural gas fired smaller generating units embedded within an electricity network situated on a residential estate and will distribute the locally generated electricity to households located within that estate. Any excess electricity not required by the households will be exported to the national electricity grid. The GridX network will be connected to the national electricity grid at a single connection point only for the sole purpose of exporting excess electricity at that connection point. The connection will only be maintained during periods of export and we anticipate therefore that for the majority of the time the GridX network will be isolated from the national electricity network. The GridX network will not import electricity or take a reverse feed from the national electricity grid. The GridX network is thus operating as an "islanded network" for the purposes of conveying electricity to customers.

In this response we have referred to the Grid network as an "Off-Grid Network" and the physical delivery and sale across the Off-Grid Network as an "Off-Grid Supply" and referred to the standard distribution networks which form part of the national electricity grid as "On-Grid Networks" and the supply across these networks as "On-Grid Supply".

2 *Responses to the Issues Paper*

You have stated that the AER must form a view as to whether granting the application would result in customers connected to the GridX Off-Grid Network being placed at a material disadvantage relative to On-Grid Network customers.

That comparison presumes that customers connected to the GridX Off-Grid Network have the option of an On-Grid Network connection.

As indicated in our Proposal that option is unlikely to be available for these customers.

The establishment of the National Electricity Market (NEM) and the associated competition is predicated upon the assumption that it will be economic to connect customers to the National Electricity Grid. The GridX Proposal is most likely to operate in those areas where such a connection is not economic. The GridX proposal thus provides for competition at the household level rather than at the electricity retail level. The number of properties at which the GridX system is available will, in comparison with the number of properties on a standard national grid system, be very small and customers will therefore have ample choice and will be fully informed as to the impact of their choice. The GridX Proposal thus aids competition in that it provides for an alternative form of electricity distribution and retail, one which is not part of the National Electricity Market. Another analogy would be to toll roads in that these are built to provide choice for the motorists. Motorists do not need to use these roads. In the same way that customers are not obliged to buy a house which has the GridX system installed. However in the toll road scenario motorists pay an additional amount in order to use the toll road whereas GridX customers will not pay any more for the GridX system than they would pay in standard retail and distribution charges.

We appreciate that the interplay of definitions in the National Electricity Rules (NER) results in the GridX Off-Grid Network falling within the definition of a network because of the export connection to the national electricity grid. GridX is therefore required to register as a network service provider or obtain an exemption from the requirement.

Clause 2.5 of the NER authorises the AER, in accordance with guidelines, to exempt GridX from the requirement to register as a Network Service Provider subject to such conditions as the AER deems appropriate where (in the AER's opinion) an exemption "is not inconsistent with the market objective".

The market objective is set out in section 7 of the National Electricity Law as follows:

The national electricity market objective is to promote efficient investment in, and efficient use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, reliability and security of supply of electricity and the reliability, safety and security of the national electricity system.

We consider that granting an exemption will not be inconsistent with section 7 for the following reasons:

- The GridX Proposal, being an Off-Grid Supply, provides an alternative arrangement to the standard On-Grid Supply across the national electricity system and is therefore likely to assist competition between network arrangements and thus promote efficient investment and efficient use of services.
- Granting the exemption sought for the GridX Proposal will have no impact on the reliability, safety and security of the national electricity system as the electricity exported into the national electricity system will be required to comply with the standards in chapter 5 of the NER and be subject to technical requirements set out in a connection contract with the local distribution network service provider into whose distribution network the exported electricity will flow.

- Granting the exemption sought for the GridX Proposal will have a positive benefit on localised parts of the national electricity system as GridX will export electricity into the network at times of high demand. This is possible as the GridX system will have excess capacity above its customers' peak power requirements (see our responses at point 3.15).
- Granting the exemption adds customer choice by offering customers an alternative form of electricity supply in geographical areas where the national electricity system is constrained and where therefore residential development is unlikely to otherwise occur in the short to mid term.
- Given the fact that GridX will be subject to jurisdictional requirements in regards to consumer protection provisions and will enter contracts with customers setting out price, quality, reliability and security of supply of electricity, under the GridX Proposal granting the exemption is unlikely to be inconsistent with the furtherance of the long term interests of consumers of electricity with respect to price, quality, reliability and security of supply of electricity. In many areas the services are likely to be better than those offered to comparable customers under standard form contracts as for example, the GridX Off-Grid Network will be supported by multiple generating assets, and local networks all located underground and therefore be less susceptible to system outages.
- As indicated below to support the jurisdictional requirements and provide comfort to the AER that the GridX Proposal will not place customers at a material disadvantage as compared to customers under an "On-grid Supply" GridX will if considered necessary by the AER accept as conditions to its general exemption:
 - a price cap on its bundled electricity charges (network, retail, metering and associated regulatory charges) at the price equal to that charged by the local retailer for its bundled charges under a standard form contract in the locality in which the particular residential estate is situated;
 - an obligation to include in its contracts with customers quality, reliability and security of supply standards equivalent to those provided by the local DNSP or retailer under contestable contracts with small retail customers in the locality in which the particular residential estate is situated;
 - an obligation to provide metering for recording electricity consumption which is at least equivalent to that required by the local DNSP for small retail contestable customers in the locality in which the particular residential estate is situated; and
 - an obligation requiring it to join the relevant jurisdictional ombudsman scheme.
- Granting the exemption achieves a saving in greenhouse gas emissions as compared to the emissions attributable to the electricity supplied across the national electricity grid.

By contrast if the exemption was not granted the GridX Proposal would not proceed as an On-Grid Supply (which seems to be the presumption in some of the Submissions) as this would not be commercially and/or technically feasible. Instead GridX would reconfigure the network elements to isolate the customer network such that it no longer fell within the definition under the NER which brings about the need for registration. The result of such a reconfiguration being that the costs to customers would be increased, the competitive benefits recognised above would be diminished and the AER would no longer have a regulatory role in respect of the GridX Proposal.

3 Issues raised by stakeholders

3.1 Access to full retail competition

Full retail competition is not possible because of the physical configuration of the Proposal in that the GridX Off-Grid Network will be designed and built so that it is unable to import electricity. The reasons for this are commercial and/or technical as indicated below.

NEMMCO's submission suggests that the physical configuration should not prevent retail competition at connection points within the GridX Off-Grid Network on the basis that retailers could register the customer connection points within the Off-Grid Network. An analogy is drawn with an internal standby generator which is metered and registered within the National Electricity Market ("NEM"). In that analogy the standby generation replaces the On-Grid Supply and the NEM settlement process "pays" the standby generator the spot price for the standby generation and "charges" the customer the spot price for both the On-Grid Supply and the standby supply. The difference here is that the GridX Proposal will not be commercially feasible if GridX is required to sell 100% of its output at spot price. The AGL submission alludes to this point also in suggesting that GridX and retailers swap on-grid and off-grid electricity based on the spot price. However that presupposes that such a swap is commercially feasible for GridX, it is not. As many Submissions have recognised, the spot price is uneconomic for gas fired generation as it is based on cheaper coal fired generation. In order for the GridX Proposal to succeed, GridX needs to charge bundled prices equal to those currently charged to standard form customers. As indicated in the AGL Submission, it is the saving in network charges which underpin the additional energy costs attributable to gas fired generation over generation sourced from NEM.

The National Electricity Law does not oblige generators to sell electricity to the NEM at spot price, to do so would clearly be anti-competitive. Generators are free to sell electricity to third parties, it is only the electricity exported into the national electricity grid which must be sold to a local retailer, Customer or NEMMCO.

In the absence of access to a competitive market several respondents suggest a clearly demonstrated benefit must be established. As indicated above, the correct test here is that the granting of an exemption will not be inconsistent to the market objective and for the reasons given above we do not consider that this will be the case.

Q What is the detail behind how GridX's retail prices would be established, particularly in the absence of price caps?

A GridX will, if considered necessary by the AER, accept the imposition of a condition imposing a price cap on its bundled electricity prices (being retail, network, metering and associated regulatory prices) being equivalent to the same bundled price applicable to residential customers whose consumption is comparable to the GridX customers at the relevant estate and who are supplied under standard form contracts in the local distribution area in the location in which the estate is situated. As the AER notes in the Issues Paper (see footnote 5), NSW legislation currently imposes a retail price cap at the amount which would be charged by the standard retail supplier under a standard form customer supply contract but the NSW legislation is silent on the amount of network charges. By imposing a condition of this nature the shortcomings in jurisdictional requirements can be overcome.

Q Would customers ever have the option of obtaining electricity at a retail price lower than that to be charged by GridX

A Customers would be unlikely to have the option of obtaining electricity at a retail price lower than that charged by GridX because such customers are not connected to the national grid. In order to take part in full retail competition customers need to be connected to the national grid and to have the ability to import electricity into their homes from the national grid. From a commercial perspective the costs of establishing a connection to the national grid are likely to be prohibitive which is why the GridX Proposal was selected in the first place.

Q What alternative options would exist if customers were no longer happy with GridX Retail or service offering?

A As indicated above GridX is prepared, if considered necessary by the AER, to accept a condition requiring it to include in its contracts with customers whatever equivalent statutory protections are required in the relevant jurisdiction by retailers and distributors when entering into negotiated contracts with small retail customers regardless of whether in fact GridX would be required to do so under the relevant jurisdictional legislation. These would include customer protective provisions, billing and payment terms, disconnection procedures and various minimum guaranteed customer service standards. GridX is also prepared to accept a condition requiring it to join the relevant jurisdictional ombudsman scheme. Customers would therefore have recourse to that scheme if GridX's performance of services falls below the contracted standard.

In regard to retail services, the customers are unlikely to have the option of transferring to another retailer for the reasons given above – but considering that the retail service is primarily a billing service this is highly unlikely to result in any significant detriment to a customer.

So far as network distribution services are concerned, GridX customers are in no worse position than any other customers connected to a national grid distribution network, as in either case it is rarely practical for such customers to become connected to another network should they become dissatisfied with the service provided by the network service provider.

3.2 Licensing arrangements

Q You have asked how, in the absence of the requirement to hold a distributor's licence in NSW GridX proposes to provide the customer protection arrangements set down in the *Electricity Supply Act 1995 (NSW)* and the *Electricity Supply (General) Regulation 2001 (NSW)* ("*Regulation*"). You have also commented that it is unclear whether GridX is required to apply for and hold a retailer licence and asked:

- Does GridX intend to apply for a standard retail supplier's licence or retail supplier's 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?

The answers are set out in 3.3-3.11 below.

3.3 Retail supplier's licence

GridX considers that it is required to apply for and hold a NSW retail supplier's licence and it will be submitting its application in the next coming weeks. It is not appropriate, nor necessary, for GridX to apply for a standard retail supplier's licence as this is reserved for the retail arm of a distributor who has a distribution district. We anticipate that the usual conditions applicable to a retail supplier will appear on

the licence except for those which relate to transfer obligations and last resort supply arrangements as these obligations are not appropriate in an Off-Grid Supply.

3.4 Consumer protection provisions

The primary consumer protection provisions in NSW are set out in Schedules 1, 2 and 3 of the Regulation. GridX will be obliged to comply with all of these requirements in its contracts with customers.

This follows because clause 40 of the Regulation (which applies to GridX by virtue of section 38A of the Act) requires terms in:

- Schedule 1 to be included in "negotiated customer contracts between a licence holder and a small retail customer";
- Schedule 2 to be included in "customer supply contracts between a supplier and a small retail customer; and
- Schedule 3 to be included in "negotiated customer connection contracts between a service provider and a small retail customer.

"Negotiated customer contracts" mean both negotiated customer connection contracts and negotiated customer supply contracts.

A "licence holder" is defined with reference to:

- customer connection contracts as a "service provider" being a "distribution network service provider" defined in the Act as a person who controls or owns a distribution system - GridX falls within this definition; and
- customer supply contract as the supplier being a retail supplier who is defined as a person who holds a retailer supplier's licence - GridX will fall within this definition.

GridX is therefore obliged to comply with the requirements in Schedules 1, 2 and 3 of the Regulations.

Schedule 1 relates to matters such as, the content of contracts including details on contract charges and security for charges, details of quality, reliability, response to customer enquiries, response times, notification before commencing maintenance on the network, government funded rebates, payment plans, compensation if guaranteed customer service standards are not met and contains restrictions on disconnection.

Schedule 2 requires the contract to contain details on the basis of charges, cooling off periods, arrangement of connection services, disconnection at the customer's request, discontinuance of supply, guaranteed customer service standards (telephone hotlines, punctuality in appointments, notifications before discontinuing supply and notice of disconnection).

Schedule 3 contains provisions relating to connection services, disconnection and where applicable retailer of last resort arrangements and guaranteed customer service standards (including timely provision of connection services, notification of interruptions, telephone hotline services, compensation for failure to repair street lights, punctuality in appointments and disconnection procedures).

Customers connected to the GridX Off-Grid Network in NSW will therefore have the same protections in their contracts as customers connected to an On-Grid Network. Similar consumer protections apply in other States and Territories and to assist the AER grant a general exemption applicable in all States and Territories, GridX is prepared to accept a condition requiring its customer contracts to contain the same consumer protective provisions as would apply to a customer connected to an On-Grid Network receiving an On-Grid Supply from a retailer under a negotiated customer contract.

3.5 Ombudsman Scheme

As indicated above, GridX will be required to join the NSW Ombudsman Scheme because of GridX holding a retail licence and its customers will have access to the Ombudsman Scheme for both retail and network queries. To assist the AER grant a general exemption applicable in all States and Territories, GridX is prepared to accept a condition requiring that it joins an ombudsman scheme in the relevant State (if one is in operation for electricity disputes) whether or not the jurisdictional requirements would require GridX to do so.

3.6 Ring-fencing guidelines

The ring-fencing guidelines were designed to ensure that distributors did not favour the retailer business belonging to the distributor over other retail businesses. The need for such guidelines was to assist competition where there is competition for the distribution services at retail level. As indicated above in the GridX Proposal there will be no competition at the retail level as the same entity is providing both services and as such this issue ceases to be relevant.

3.7 Last resort supply and retail transfer arrangements

The last resort supply and retail transfer arrangements are predicated on there being a National Electricity Grid connection such that other retailers can take over the supply function. As indicated above the GridX Proposal is an Off-Grid Supply and these provisions are not therefore relevant.

If GridX was unable or unwilling to operate the Off-Grid Network, it is likely that another operator would purchase the business from GridX (or its receivers) and operate the Off-Grid Network. Alternatively the new operator might find that it is now economic to operate as an On-Grid Supply and in which case liaising with the local distributor for import capability.

As indicated below the technical configuration of the GridX Off-Grid Network will be designed and installed so as to be compatible with the adjacent local distribution network and always maintain full compliance with AS3000 and State Service and Installation Rules. If considered necessary by the AER GridX would accept a condition of this nature as part of its general exemption.

3.8 Network Use of System Agreements

These are only required for an On-Grid Supply where there is competition between retailers. In the GridX Proposal the customer will have one contract with GridX which deals with both the physical distribution of electricity and the sale of electricity. Network use of system agreements are not therefore relevant.

3.9 Credit support and prudential arrangements

These are required where there is a network use of system arrangement because in the On-Grid Supply model the distributor is relying on the retailer to collect network charges from customers and therefore credit support is an aspect of that relationship. In the GridX Off-Grid Supply there is just one entity providing both distribution services and sale of electricity.

3.10 Repairs and street lighting

As indicated above, GridX will be obliged to include compensation arrangements in its contracts with customers if it fails to repair street lights as required by the legislation. In the GridX Proposal, GridX will be installing street lighting and will absorb the cost of this within the services provided to customers. In other words, the customers will not be paying an additional charge for the street lighting.

3.11 Billing information

As indicated above, GridX is required to comply with the billing information disclosure requirements in Schedule 1 and 2 in its contracts. Clause 24 of the Regulation sets out information which must be included in GridX's bill. This clause applies to GridX as a licence holder because GridX is a retailer.

3.12 Responsible person

The only metering point which is an On-Grid Network metering point is the point which connects the GridX Off-Grid Network to the local distribution network. GridX accepts that the responsible person for this meter will be the local network distributor into whose network GridX exports excess electricity.

As recognised by NEMMCO's submission, customer connection points within the GridX Off-Grid System are not subject to the National Electricity Rules and there is no need for a Responsible Person to be appointed where the connections points do not take part in the NEM settlement process. GridX will therefore be responsible for metering installations for these customers.

GridX will be installing metering of at least a comparable standard to that installed in On-Grid Network connections and the GridX meters will record electricity, gas, hot and cold water. GridX is therefore able to accept, as a condition to its general exemption, that GridX will install meters at customer's premises connected to the Off-Grid Network of at least a comparable standard to those required to be installed for customers of a local retailer in an On-Grid Network in the relevant jurisdiction. The reference to customers of a local retailer is required as customers of non-local retailers may need interval meters because of the operation of the NEM and this requirement is not necessary in an Off-Grid Supply.

3.13 Technical standards

Technical standards are generally set out in the customer connection contract and as indicated above GridX will be entering into a contract with its customers covering both physical delivery issues and the sale of electricity. Customers who consider that the standards are not being met or maintained can apply to the Ombudsman.

In addition, the GridX Off-Grid Network will be designed and installed so as to be compatible with the adjacent local distribution network.

3.14 Network planning issues

The likelihood that a developer will wish to install the GridX system as opposed to a standard electricity distribution system is predicated upon the fact that:

- the network in that area is likely to be constrained for some considerable time;
- the developer's charter is to adopt a greater level of energy sustainability within certain projects;
- the developer sees value from a sales perspective; and/or
- the developer anticipates changes being made in the building sustainability index (i.e. BASIX) and sees the installation of the GridX system as a way of meeting these higher standards.

The GridX Off-Grid Network gives developers and customers more choice.

GridX understands that there are many areas of the national electricity grid which are subject to an existing constraint in the network and that this constraint is unlikely to be relieved in the short to medium term.

Some Submissions have raised concerns that if the network is upgraded and the constraint is relieved at some point in the future, then there would be no need for the GridX Off-Grid Network at that point. That

presupposes that the new excess capacity is unlikely to be taken up with newer developments. Given that the expectation is that demand will continue to outstrip supply for the short to medium term we do not consider that this presumption is valid. What is more likely is that the new excess capacity will quickly be absorbed by new developments.

Granting a general exemption on Off-Grid Supply is unlikely to result in such a magnitude of developments as to affect the local distributor's medium to long term plans, nor is such an exemption likely to result in stranded assets. The local distributor will be fully aware of future Off-Grid Networks planned in its area as future applicants will need connection to the local network in order to export excess quantities. Plus the developer is likely to discuss both options initially and where the distributor can bring forward planned upgrades it will no doubt do so. The local distributor will therefore be able to take into account these developments when planning its next augmentations and upgrades.

Competition in the distributed generation field is likely to provide a real benefit to developers and customers, which vastly outweighs the unlikely consequence that network assets in the same locality are underutilised or stranded in the medium to longer term.

3.15 Quality and reliability

GridX does not agree that the quality and reliability of the GridX Off-Grid Network is likely to fall below that of a conventional network. Primarily this is because the GridX system is not dependent on one source of generation but does utilise multiple smaller scale generation units within the network which provides for a built-in redundancy. By contrast in a conventional network a shortage in supply, poor weather and bush fires a significant distance away can cause quality and reliability issues. Also, it is common knowledge there are many areas within Australia, especially in and around the capital cities, where the network is unstable and these are in fact the areas in which GridX will be operating.

Q 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?

A AGL has said publicly that there have been more than 100 years of uninterrupted supply of Gas in Sydney, and the recent interrupts in Melbourne and Adelaide have now been addressed.

Natural Gas in the main is reticulated throughout the major cities of Australia, utilising pneumatics for the control thereof, meaning that the supply is independent of mains electrical power. Gas supply has a more reliable service history in the last century by comparison to the electrical supply. In fact many of the periods of outage reported by electricity utilities are increasing.

The underground installations are less likely to be effected by adverse weather conditions.

GridX has adopted the following precautions in its first Glenfield site:

- The ability to connect in an auxiliary service of LPG Gas to run the Generators.
 - This would be achieved by having a LPG tanker situated on site, (discussions have already been had with Westfarmers to provide this as an alternative fuel source) and connect this supply into the system. The Natural Gas service can be isolated and the generators themselves will automatically adjust to accommodate the LPG fuel until restoration of the Natural Gas service can be achieved.
- Provision to connect external temporary power supply

- Provision has been made to accommodate an external power supply from a mobile diesel generator to the GridX Off-Grid Network, in the same manner that traditional utilities such as Integral use to accommodate the same end.

On our future sites in addition to the safety measures outlined above we may, depending on the project, include the following additional measures;

- An onsite LPG tank could be installed underground, to accommodate 7 days running of the GridX generators and this is currently under review. This option is already under consideration by some military organisations as a means of risk mitigation.

Q 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-a-vis customers supplied through conventional networks?

A GridX has and will continue to develop and design into its networks fuel flexibility and back-up contingency including some or all of the following measures;

- The GridX Off-Grid Network is design to be isolated in the event of a failure of the GridX Off-Grid Network so that the On-Grid Network is not effected by the GridX Off-Grid Network. This is a design feature of the On Grid Network as a whole. The GridX Off-Grid Network always will always utilise a multiplicity of power generators such that the peak power requirements on the site can be maintained despite there being a single generator out of action. This together with the smart controls allowing for the load shedding of the chilled water generated at centrally located air-conditioners will ensure an uninterrupted supply.
- GridX may in some sites see it economic to install a higher level of redundancy in order to maximise the export opportunity to the national electricity grid at times of high spot price which is likely to coincide with times of high demand on the On-Grid Network. GridX will always ensure that the requirements at the site are always maintained as a first priority above GridX's export opportunities.
- The GridX Off-Grid network has many load shedding features that allow for the management and control of the system in the event of any unexpected peak supply requirements, similar to the On-Grid Network.
- The GridX network where possible will always be supported by gas from multiple feeder points to mitigate the risk of a loss of gas supply from one or more of the feeders (it should be noted that the gas network is not dependant on the electrical grid),
- Some sites may have LPG storage made available which may give up to a weeks worth of backup in the event of a natural gas mains failure,
- Alternatively, as a final contingency all networks will be able to be supported by Standby Diesel back up generators which will be able to support the network indefinitely.

Q What emergency plans and/or procedures will exist should the gas supply be interrupted for any period?

A As indicated above:

- All networks will be able to be supported by Standby Diesel back up generators which will be able to support the network indefinitely.

- GridX is investigating contracting arrangement for the supply of an LPG tanker to be stationed at the sites and connect this supply into the system.
- Some sites may have the capacity for LPG storage to be made available which may give up to a weeks worth of backup in the event of a natural gas mains failure.

As a final point on this issue, customers who sign up for the GridX Off-Grid Supply will be fully aware of this risk and of the likelihood of it occurring. As indicated earlier, customers are not obliged to sign up for the GridX System as there will be a significant number of similar properties with an On-Grid Supply to choose from. If the Customer wishes to take this risk then they should be allowed to pursue that option. Otherwise competition suffers.

4 Additional comments

4.1 AER Guidelines

Some Submissions have suggested that as the GridX Proposal does not meet all of the requirements in the guidelines initially published by NECA and inherited by the AER, the AER should not grant an exemption.

However, the guidelines recognise that applications which meet some but not all of the principles in the guidelines will be assessed and, if the application is consistent with the intent of clause 2.5 of the Rules, AER may grant full or partial exemption. In other words as long as the application is not inconsistent with the market objective the AER may grant the exemption and the principles cease to be decisive.

4.2 Green Power

Some Submissions stated that customers connected to the GridX Off-Grid Network would be disadvantaged because they would not be able to sign up for "green power" options. In fact the green power option remains available in that customers could purchase green power renewable energy certificates and NSW greenhouse gas certificates and other environmental products independently of GridX or alternatively GridX could purchase these on the customer's behalf and charge the customer the green premium. The purchase of green power from a retailer does not mean that the customer is receiving electricity from a "green source" it simply means that the retailer has purchased the associated green power rights or renewable energy certificates from an accredited certificate provider. GridX customers are therefore in the same position as other customers in this regard. The difference for GridX customers though is that their physical electricity supply has generated less greenhouse gas emissions than the average electricity flowing across the national electricity grid. GridX customer's are therefore assisting in the reduction of greenhouse gases in a more positive way than are customers who have not elected to take up a green power product.

GridX understands that the standard electricity tariff charged to customers under standard form contracts contains a "green component", attributable to the retailer's environmental products obligations as regards that customer's supply. GridX has proposed that its charges are capped at the standard charges recognising that these contain a "green component" GridX could assert an entitlement to a premium because its physical supply is more environmentally friendly than the national grid supply however in view of the difficulty in settling this premium GridX is prepared to forego this benefit.

4.3 General exemption

It is GridX's strong preference for the AER to grant a general exemption for GridX Off-Grid Networks rather than grant an exemption on a project or state basis. This is because GridX is actively considering two other proposals, one in Queensland and one in Victoria. The jurisdictional issues can be addressed by suitably worded conditions as suggested above.

4.4 Customer awareness

GridX's contracts with customers will fully explain the nature of the Off-Grid Supply. GridX considers there is no risk that customers will inadvertently purchase a home with the GridX system as the GridX system will be the distinguishing selling point.

Finally we appreciate there are a significant number of issues covered here and GridX is more than willing to meet with the AER to discuss these further or to assist the AER in drafting suitable conditions for the general exemption.

Yours faithfully

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