

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

14 July 2006

Dear Mr Roberts

GridX Power Pty Ltd – Application for Network Service Provider Exemption

Integral Energy appreciates the opportunity to comment on the application by GridX Power Pty Ltd (GridX) seeking an exemption from registration as a Network Service Provider (NSP).

In assessing the GridX application, the AER is required to ensure that its decision is not inconsistent with the National Electricity Market (NEM) objective. The NEM objective is:

to promote efficient investment in, and effective 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.

In examining the application, Integral Energy has been guided by the NEM objective as well as the need to ensure the following principles are adhered to:

1. Sustainability and competitive neutrality;
2. Third party access to essential infrastructure; and
3. Appropriate technical and service standards.

Sustainability and competitive neutrality

Integral Energy is committed to ensuring the provision of sustainable energy into the future. This requires all sources of energy to be considered as options for future supply including embedded generation of the type contemplated by GridX.

In addition, we strongly support the principle of competitive neutrality between the public and private sectors in the provision of efficient investment in electricity infrastructure and believe that private investment should be encouraged in the electricity sector if it can be demonstrated to meet the NEM objective.

Third party access

Third party access to essential services, including electricity distribution networks, promotes competition in both the upstream and downstream sectors of the NEM and underpins efficient investment in the electricity industry. The GridX network, by its design, restricts customers from having access to the national electricity grid.

As noted by the AER in its Issues Paper, one effect of granting GridX exemption from the requirement to register as an NSP would be to confer market power on GridX in providing (or choosing who provides) retail electricity services to consumers within its networks. The AER, in assessing the GridX application, needs to consider whether the benefits to the customers of the GridX network would outweigh the costs of not having access to the electricity grid.

To meet the NEM objective, Integral considers that retail competition within the estates needs to be carefully considered by the AER to ensure efficient investment and effective use of electricity services to consumers with respect to price. In addition, Retailer of Last Resort (RoLR) provisions need to be considered to ensure customers would see seamless service provision should disruptions to the GridX electricity supply occur.

Under the proposed arrangements, Integral Energy would not be the RoLR for GridX or customers connected only to the GridX network. Under NSW legislation, the inability of the GridX network to import energy from the national electricity grid removes the obligation on Integral Energy to act as the RoLR. Any disruptions to the GridX power supply and the associated impacts on reliability and security of supply would be a contractual matter between GridX and its customers.

If the AER decides to grant an exemption to GridX from the requirement to register as an NSP, Integral Energy believes it would be prudent to require the approval of the relevant participating jurisdiction in respect to the RoLR arrangements that would apply to the GridX customers. This approval is consistent with the NEM objective and the structure of the NEM framework where jurisdictions have responsibility for retail regulation at this time.

Technical and service standards

Integral Energy considers that providers of electricity network infrastructure should meet the same technical and service provision requirements as all other providers of similar services – that is, there should be a level playing field for all providers of network services, and/or generators connecting to a network.

A decision by the AER to grant a general exemption to GridX will significantly influence the manner in which future greenfield estates and apartment estates are planned and developed. This, in turn, will impact on the future planning and development of transmission and distribution assets in the NEM. Because of these potential impacts, and to ensure that appropriate technical and service standards are delivered, we believe that exemptions should only be considered for specific locations on a case-by-case basis.

It is apparent that there are a number of issues where the “ground rules” for considering exemptions of this type have not been established. In determining whether the GridX application is consistent with the NEM objective, the AER will need to have regard to these issues and how they may impact on the long term interests of customers.

Yours faithfully



Karen Waldman
General Manager
Regulatory and Corporate Affairs