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

Dear Mr Roberts

GridX Power Pty Ltd Application For Network Service Provider Exemption Issues Paper

AGL welcomes the opportunity to provide comment on the above Issues Paper.

AGL notes that the GridX proposal is an innovative approach that parallels proposals by other large generators in the NEM to avoid network charges. The application to a residential or small consumer network does, however, entail specific concerns. The closed nature of the arrangement where a bulk gas supply generates electricity and thermal energy and there is provision to export surplus electricity but not import electricity if needed is effectively providing an "off-grid" supply of electricity.

Off-grid supplies of electricity can be cost effective for customers. In this case, the combination of an off-grid supply with an export of energy would:

- Reduce the network charges to customers since the grid is not providing any service or support. Naturally this saving underpins the additional cost of the electricity over the cost of the energy from the National Electricity Market;
- Remove any potential for the grid based reliability and supply standards to be applied. The forced and maintenance outages of the GridX facilities would replace the network and generation outages from the NEM; and
- Reduces potential for retailer competition since the customer would need to purchase their energy from the GridX suppliers.

While a large customer seeking to co-locate with a large generator would be fully aware of the risks of such an arrangement, a smaller customer may not be aware of the risks. AGL considers, therefore, that such an arrangement requires proper consideration.

AGL supports both innovation and competition in the energy sector, specifically:

- new and innovative ways of providing customers with competitive energy services particularly with respect to price, choice and level of service;
- competition in the energy market;

We therefore consider:

- it is appropriate for the GridX application to be determined now and for this determination to be used as a precedent for future applications for similar developments;
- conditions need to be applied to the exemption so that customers long term interests are protected and the NEM Objective is met; and
- that competition in the real estate market should be considered as an alternative to energy market competition to promote initiatives such as that proposed by GridX, provided there is full disclosure of such arrangements and their comparative risks at the time of sale or lease.

Our detailed comments in response to the paper are attached.

Please contact Robert Shannahan, Manager Retail Regulation, on (08) 8299 5542 should you wish to discuss this submission further.

Yours Sincerely,

Sean Kelly
General Manager Energy Regulation

AGL comments on GridX Power Pty Ltd application for network service provider exemption

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

AGL considers that GridX's application should be determined now. From the information in the Issues Paper and on the GridX website it is evident that this will be the first of a number of sites in many jurisdictions where this type of development could be used. It is also consistent with other co-location proposals being considered by large customers. While it is suggested that generation could be achieved in different ways AGL considers that the same principles apply and therefore we consider it is better to resolve this application now as a precedent for the future.

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?

It is difficult to answer this question fully without understanding how the GridX system will work and the full extent of efficiency and environmental gains achievable. The AER will need to be satisfied that customers will have:

- A price (the net price to customers for overall supply) that is not greater than what can be achieved by normal supply in a competitive market;
- The same quality of supply provided by the NEM System standards; and
- Supply reliability and security, as measured by minutes off supply and interruption frequency (or other relevant measures), at the same level as what would apply if they were grid connected.

On the face of the application, and without the technical data of the GridX facilities, AGL cannot tell if these requirements will be achieved. It is, however, possible to argue that granting an exemption is unlikely to advance the NEM Objective due to a lack of access to competition at the retail level and the inability of the customers to opt out if the GridX supply does not meet the required standards.

It may be possible, however, to argue that competition is available but it is at the real estate investment level rather than at the energy consumption level. That is, customers could choose to invest in a GridX development or in some other real estate development on the basis that the overall return to them is better with GridX, even knowing the implications for their energy arrangements in the longer term. If it was decided that competition needed to be at the energy market level then it is AGL's view that customers long term interests with respect to price are likely to be at risk without appropriate provisions for customer choice. This is the consideration larger customers make when they choose co-generation or other supply arrangements.

On the other hand because of a lack of evidence about the technical capabilities of the GridX system it is difficult to determine whether the long-term interests of customers with respect to quality, reliability and system security would be at risk. It is therefore important that, should the exemption be granted, customers be fully aware of the arrangements of the supply, the standards that should apply and their redress if the standards are not achieved.

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

As stated earlier AGL considers that GridX's application should be considered on the basis of it being for a general exemption. This is of course on the basis that the same principles of the currently proposed GridX system apply in future applications for different sites, including different technologies.

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

If it is considered that the long term interests of customers are measured at the energy level rather than the real estate level then AGL considers that either:

- the capability to import as well as export energy should be a condition of the exemption. Such a condition allows the customer to choose the retailer which offers the price and service mix that best meets their needs. Retail prices therefore would not need to be regulated; or
- retail competition be allowed where GridX and retailers swap on-grid and off-grid electricity based on the average pool price for each supply period.

AGL considers that retail price regulation based on specific developments will be costly and therefore does not support regulation of prices.

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

AGL is of the view that price cap arrangements are not appropriate in a competitive market.

AGL recognises that under the proposed GridX development customers are not likely to have choice of their energy retailer. Customer choice may however be achieved through competition in the real estate market (sale or lease) provided there is appropriate disclosure or via retailer competition through an energy swap arrangement. We consider that these options should be investigated further as an alternative to the costly option of regulating retail prices for specific developments.

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?

The AER could make appropriate disclosure a condition of any exemption granted by it. Disclosure must include:

- pricing of electricity;
- how the prices will be adjusted in the future
- how the prices compare (and can be compared in the future) with alternate supply arrangements
- what is the expected reliability and security of supply, including how it will be measured and reported to landowners; and

- what redress is available for price and other supply disputes, including compensation where projected savings or reliability is not achieved.

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

- What happens to customers under the proposed arrangements if:
 - The GridX venture fails? If the gas supplier is not paid then customers could find themselves without an energy supply.
 - The demand for energy from customers exceeds the generating capacity of the system?
 - If the GridX system fails - risk that there will be significant costs involved in reconfiguring the internal network for imported energy from the Grid.
- There should be no expectation that other retailers would be obliged to purchase exported energy from GridX other than under commercial arrangements.
- Have the safety requirements of the network been adequately addressed? It is AGL's view that GridX must meet all the safety requirements that other distributors would be required to meet in such a situation.