



Sebastian Roberts
General Manager
Networks Regulation South
Australian Energy Regulator
PO Box 520
Melbourne Victoria 3001

cc Jeremy Romanes

19th May 2006

Dear Sebastian,

Registration as a Network Service Provider

We are writing to you in response to your letter dated 15 May 2006 in which you indicate that the Board of the Australian Energy Regulator ("AER") considers that further consultation is required before the Board is able to make a determination regarding GridX's application for an exemption from registration as a network service provider in respect of the project described in our letter dated 10 April 2006.

You have indicated that the AER intends to release an issues paper on our proposal calling for public submissions. Your contact officer Jeremy Romanes requested that a copy of our initial application be attached to the issues paper as this described the project. That letter contained material extraneous to the issue now in question and it is therefore our preference that you attach a copy of this letter to the issues paper.

1 GridX proposal

GridX will install a distributed generation system to service "greenfield" housing and apartment estates. The GridX system will generate electricity from natural gas fired small generating units embedded within an electricity network situated on the estate. The electricity and waste heat produced by the generating units will supply electricity and hot water to the residences on the estate. Any excess electricity will be exported to the national electricity grid.

The GridX network will be connected to the national electricity grid at a single connection point and the GridX network will be designed and built so that it is unable to 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.

The GridX system will be installed in locations where the existing electricity distribution network may be unable to support the electricity requirements of the housing estate because of constraints on the system. It is primarily for this reason that the distribution network operator will restrict the GridX network from importing electricity into the GridX network from the distribution network.

GridX has discussed its proposal with the Independent Pricing and Regulatory Tribunal of New South Wales ("IPART"). The legislative provisions currently in force in New South Wales:

- require GridX to obtain a retail supplier's licence in order to sell electricity to customers on the estate. GridX is in the process of obtaining such a licence. Legislative provisions in New South Wales oblige an electricity retail supplier to:
 - include in its retail contracts with customers, consumer protective provisions including billing and payment terms and various minimum guaranteed customer service standards;
 - become a member of the Energy and Water Ombudsman in NSW scheme and to submit to the jurisdiction of the ombudsman in disputes with its customers.
- do not require GridX to hold a distributor's licence as the legislation currently exempts all entities (other than the incumbent distributors) operating a distribution system in New South Wales from the obligation to hold a distribution licence; and
- do not require GridX to hold a licence in order to generate electricity.

As GridX intends to sell its excess electricity to the national electricity market GridX will:

- be connected to the local distribution network and the local distributor will require GridX to meet technical standards in regard to physical supply characteristics of electricity exported into the interconnected electricity system; and
- register as a market generator with NEMMCO and as such will be subject to the technical standards applicable to generators as regards the physical supply characteristics of the electricity generated by the system.

2 **Benefits to Home Owners, Developers and Community**

No Environmental Impact of Infrastructure

- The GridX network is all underground so there is no visual impact and no noise impact.

Higher Power Reliability & Quality

- Local electricity supplied direct to the homes allows GridX to guarantee greater reliability of physical supply and allows electricity to be supplied at times when the main national grid is not operational.

GHG Friendly Appliances

- GridX has a range of GreenMark Dishwashers and Clothes Dryers to offer to homeowners which are 75% more efficient than standard products.

Infrastructure Solution for Power Constrained Areas

- The GridX network operates independently of the main grid so as not to impact the traditional electrical infrastructure and is able to export excess idle capacity when the residents are out to work.

Meets BASIX (NSW) and Energy Star (Vic)

- Stringent environmental requirements now mandated under building codes can be met with utilisation of GridX system.

Lower Cost of Energy

- GridX is currently discounting energy bills in its first development below the rates offered by electricity retailer's in other low emission or green energy offers.

Outstanding Customer Service

- GridX commits to providing homeowners with detailed and informative billing showing energy used and emissions saved.

Further information

- Further information on the GridX benefits is available on GridX's website:
<http://www.gridex.com.au/GRDX2006/index.aspx>

3 Request for exemption from registration

We request that the AER grants the proposal an exemption from the obligation to register.

As indicated in section 2 above GridX will be subject to the jurisdiction of IPART as regards its retail activities and will be required to maintain technical standards under its connection agreement with the local distributor and as part of its obligations as a market generator under the Rules.

Should the AER consider it necessary GridX would be agreeable to the imposition of a condition obliging GridX to peg the electricity charges to householders with reference to the regulated tariff rate which would be payable in that distribution area with credit being given for the fact that the GridX electricity will produce less emissions than are attributable to electricity sourced from the national electricity grid and supplied under the regulated tariff rate.

Please call Craig Chambers if you wish to discuss any technical issues associated with the proposal or Fiona Melville (02 8274 9538) if you wish to discuss any legal issues associated with the proposal.

Yours sincerely,

Craig Chambers

GM, Business Development & Compliance

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