



**Mr Chris Pattas**  
**General Manager**  
**Network Investment and Pricing**  
**Australian Energy Regulator**  
**35/360 Elizabeth Street**  
**Melbourne VIC 3000**

**31 July 2015**

Dear Mr Pattas

**SA Offpeak hot water switching**

As you are no doubt aware, the South Australian electricity market currently experiences a demand and price spike at 11pm each day, which is directly linked to the simultaneous digital switching of off peak hot water load.

This is a relatively new occurrence in the State and is associated with the replacement of analog electricity meters with digital meters. The older meters naturally provided variability in the hot water load switching, whereas the digital meters have led to a situation where the load behind the meter is switching, at precisely the same moment, resulting in an increase in electricity demand of approximately 200MW and a resultant spike in market prices.

Such market price spikes have a negative impact on National Electricity Market outcomes, as the market changes at the time are purely an anomaly due to a specific type of meter and are not an accurate reflection of fundamental market conditions. The simultaneous switching of the off peak hot water load leads to significantly higher prices than would otherwise occur in both the wholesale and financial markets and unnecessarily increases market participant risk if participants are exposed (short) to the significant change in demand.

AGL notes that SA Power Networks identified, in a paper titled *Flexible Load Strategy* (released October 2014), that a program of work 'will be undertaken to visit and update the meter program at up to 27,000 customer sites to reflect the switching parameters of the revised standard programs to address the spot price spikes observed in SA' (pg.21).

AGL is seeking confirmation from the AER, as the relevant regulatory authority for this regulated entity, as to the status of SA Power Networks proposed program of work in relation to the 27,000 customer sites. This includes advice from the AER as to whether this activity has been approved/funded by the AER as part of SA Power Networks current, or future, program of work. AGL considers that there is considerable merit in market participant's being made aware that regulated entities are to address specific issues where such issues have a negative market impact.

AGL would also appreciate advice from the AER as to the time frame for the delivery of this work and the mechanisms in place to ensure that it will occur in a timely manner. AGL considers that there is a degree of urgency to completing this program of work as the



impacts on market participants are not insignificant – particularly in comparison to the likely costs of mitigation.

If you have any questions about the above information please do not hesitate to contact me on 03 8633 6967 or 0477 707 536.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux'.

Simon Camroux  
**Manager Wholesale Regulation**