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Contact Officer: Darcy Searl

17 April 2025

Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY, NSW, 2001

Dear Ms Collyer

Re: Review of the Wholesale Demand Response Mechanism consultation paper

The Australian Energy Regulator (AER) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on the Review of the Wholesale Demand Response Mechanism (WDRM).

The AER acknowledges the increasing shift to a two-sided energy market where both the supply and demand side are actively participating in price-setting and dispatch. As demand-side participation increases, it is important that the policy and regulatory settings are fit-for-purpose, ensuring end-users can efficiently and effectively engage with mechanisms that enable demand-response.

The effectiveness of the WDRM should be assessed based on its contribution to a least-cost, secure and reliable energy system capable of meeting emissions targets. As the grid shifts towards higher renewable penetration and greater decentralisation, demand-side flexibility will become increasingly important to maintaining system stability and efficiency. If the WDRM is not delivering these outcomes, it may be necessary to explore adjustments to its design or alternative approaches to ensure that wholesale demand response can play a meaningful role in supporting the energy transition.

The consultation paper raises several issues regarding the functioning of the WDRM to date and its future in the context of other demand-side participation mechanisms and programs. In this submission, we comment on the issues of limited participation in the WDRM, the potential exploration of other policy settings to enhance or replace the WDRM and the intersections of the WDRM and Integrated System Plan (ISP).

Limited participation in the WDRM

There has been limited participation in the WDRM compared to the expectations set out in the AEMC's 2020 final determination. As reported in the consultation paper, only two participants have registered as Demand Response Service Providers to date, collectively dispatching 1,258 MWh since the WDRM began operation in October 2021.¹

The AER encourages the Review of the WDRM to explore and shed light on the specific reasons for the limited participation in the WDRM. This will help the AEMC and stakeholders to assess whether limited participation in the WDRM is a result of the mechanism's design or whether it is driven by external market factors.

A clearer analysis of potential barriers limiting participation in the WDRM—such as contractual complexities, interactions with network agreements, baseline methodology concerns, and financial viability—would help clarify why participation remains low. This information could help determine whether the WDRM requires reform or if alternative demand-response mechanisms should be considered to better support demand-side participation.

Exploration of other policy settings

A key question for this review is whether the WDRM still has an important role in facilitating demand-side participation in the NEM. As noted in the consultation paper, this includes consideration of whether the WDRM is needed given recent rules introduced in the Unlocking CER benefits through flexible trading and Integrating price-responsive resources into the NEM² have progressed two-sided market arrangements. To help consider this question, an assessment of the gaps between the WDRM and other two-sided market arrangements may be useful. It may also be useful to consider the extent to which contracts offered by retailers have a demand-response component.

It is worth noting that the AER has recently had an enquiry to use our trial waiver powers to allow (aggregated small) customers currently excluded from the WDRM to access it. Due to the limitations of the systems supporting the WDRM, the proposed trial could not proceed. This indicates interest in WDRM, notwithstanding the introduction of the abovementioned recent rules that aim to progress two-side market arrangements. However, the inability for the trial to proceed suggests that the WDRM system may not be suitable to modification. We would encourage the AEMC to consider utilising its trial rule making powers to test ideas that could improve the design of the WDRM or alternatively, establish an improved demand response function for the wholesale market.

WDRM and the Integrated System Plan

The ISP assumes a certain level of demand-side participation from the WDRM. This is outlined in AEMO's 2023 Inputs, Assumptions, and Scenarios Report, which forecasts an upper estimate scenario of 8.5% growth in demand-side participation for the next 10 years, factoring in policy schemes such as the WDRM.³

If the WDRM fails to deliver its expected benefits, an alternative form of wholesale demand response must be available for wholesale market participants to engage with to ensure ISP

¹ AEMC, [Review of the Wholesale Demand Response Mechanism](#), March 2025.

² AEMC, [Integrating price responsive resources into the NEM](#), December 2024.

³ AEMO, [2023 Inputs, Assumptions and Scenarios Report](#), July 2023, p. 86.

scenarios and development paths remain relevant and achievable. Such alternatives would ensure that demand-side resources continue to play a role in achieving the ISP's objectives, including maintaining grid reliability, enhancing market efficiency, and guiding investment decisions for future energy infrastructure.

Continued engagement

We appreciate the opportunity to provide feedback on the consultation paper and are available to discuss our comments further if needed. Darcy Searl can be contacted via email [REDACTED].

Yours sincerely

Sara Stark
A/g General Manager
Policy

Sent by email on: 17.04.2025