24 April 2025

Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Via online lodgement – www.aemc.gov.au

Review of the Wholesale Demand Response Mechanism - Consultation Paper (EPR0099)

Alinta Energy welcomes this opportunity to respond to the Australian Energy Market Commission's consultation paper on reviewing the Wholesale Demand Response Mechanism (WDRM).

Alinta Energy is an active investor in energy markets across Australia with an owned and contracted generation portfolio of over 3,300MW and more than one million electricity and gas customers. Alinta Energy has also been at the forefront of driving retail competition and delivering substantial benefits to consumers across competitive energy markets for many years.

The Commission highlights that the review consultation paper is focused on:

- the benefits and costs of the WDRM;
- whether changes should be made to the design of the WDRM; and
- the accuracy and suitability of baselines applied.

We support the Commission undertaking this review and the general approach it intends to take in assessing the impact of the WDRM to date.

Alinta Energy does not believe the benefits arising from the WDRM have warranted the cost to implement and operate it. That there has been no participation despite high spot prices and volatility since the WDRM was implemented indicates that it does not present value for would-be participants.

Retailers continue to manage demand response with their large and small customers outside of the WDRM on a bilateral basis and new rule changes to the National Electricity Rules (Integrating Price Responsive Resources and Unlocking the Benefits of Consumer Energy Resources) enable two-sided markets and further ways for customers to actively participate in the National Electricity Market themselves, through third parties or via their retailer. In addition, the Commission notes the many other options available to support demand-side participation in the NEM in section 2.4 of the consultation paper.[1]

These changes, coupled with the high cost of the WDRM with limited participation to date, would indicate the WDRM has not met its objectives and has been superseded by more recent reforms. We appreciate the Commission is required to undertake its review of the costs and benefits of the WDRM and potential changes, but do not believe efforts to improve or retain it in the rules are worth serious consideration.

We recommend that the WDRM provisions of the NER be grandfathered to support existing contractual DRSP activity and that the rule itself be eventually removed as the Integrating Price Responsive Resources and Unlocking the Benefits of CER rule changes take effect. These two reforms make the WDRM duplicative and largely redundant and will very likely have greater impact and more diverse

[1] AEMC (2025), *Review of the Wholesale Demand Response Mechanism - Consultation paper*, page 8.

Alinta Energy Pty Limited ABN 64 614 975 629
Grosvenor Place, Level 13, 225 George Street, Sydney NSW 2000 Australia
T +61 2 9372 2600 F +61 2 9372 2610 W alintaenergy.com.au

participation once in operation.

We respond to specific questions contained in the consultation paper below. Alinta Energy welcomes any further opportunity to discuss our response with the Commission, please contact David Calder (David.Calder@alintaenergy.com.au) in the first instance.

Yours sincerely

Oscar Carlberg
Regulatory Affair Manager – Merchant Energy

Question 1: Benefits of the WDRM

1. Do you agree with our proposed methodology to estimate the deadweight loss benefits of the WDRM?
2. Is there an alternative approach that the AEMC should consider in measuring the impact of the WDRM on spot prices?
3. Would the results from using a more sophisticated method significantly change the benefit calculation?
4. Are there other benefits of the WDRM and what is their materiality?

Alinta Energy understands the approach the Commission has chosen to measure the benefits of avoiding deadweight loss that the WDRM may address. We maintain our long-held view that the benefit of demand reduction to the customer is the price they would have otherwise paid, presumably at times of high spot market prices. The uncertainty associated with the application of baselines and building this as a 'bid' into the supply side of the market means the WDRM does not present net benefits to customers.

Nonetheless, the logic set out by the Commission to assess the spot price impact of the WDRM on pages 10-11 of the consultation paper seems appropriate based on the approach chosen.

Question 2: Costs of the WDRM

1. What are ongoing financial and non-financial costs of facilitating the WDRM?
2. What were the financial and non-financial costs of implementing the WDRM?

The Commission refers to the cost estimates set out in the final determination of between $23 million and $33 million. We support the comparison of these costs with actuals, but note the Commission points to 1,258MWh of dispatch since the WDRM began operation in October 2021. If the lower end of implementation cost estimates were considered conservatively accurate, this would imply the cost per MWh supplied since the WDRM commence has been around $18,283.

Alinta Energy has limited ongoing costs associated with the WDRM as it is not a DRSP.

The financial and non-financial costs of implementing the WDRM for retailers and market customers included:

- The commitment of resources to the consultation process itself and the technical working group activity supported by the AEMC; and
- The opportunity cost of redirecting of internal and external personnel and resources from other projects aimed at supporting business initiatives or reducing costs - that is, the need to prioritise the WDRM process and implementation activities over those with a greater benefit and opportunity cost to individual businesses.

Question 3: Potential issues in implementing changes to the WDRM.

1. What impact would changes to the WDRM have on existing contracts?
2. What impact would phasing out the WDRM have on existing contracts?
3. Are there alternative mechanisms that would allow existing contracts to continue if the WDRM is phased out?
4. Are there other risks the AEMC should consider in deciding whether the WDRM should be changed, remain as is or phased out?

The implementation of the IPRR and Unlocking the Benefits of CER rule changes offer an opportunity to transition existing contracts under the WDRM to alternative approaches. If the WDRM were phased out, DRSPs could negotiate the continuation of contracts with customers to develop bilateral and trilateral arrangements with the customer's retailer or avail themselves of alternative mechanisms available.

Question 4: Are retailers offering demand-responsive contracts?

1. Has the WDRM had a noticeable impact on retailers offering retail offerings with demand responsive aspects?
2. Has the WDRM resulted in customers investing in being able to be more responsive?

Retailers will continue to develop products and services that benefit their customers, based on their preferences and the characteristics of their business and consumption. To the extent contracts with larger customers retain demand responsive features and benefits, these are unlikely to have been influenced by the WDRM given its relatively small impact and that it does not present relative benefits to customers.

Question 5: DRSP exclusion from FCAS cost recovery

1. Should DRSPs continue to be excluded from regulation and contingency FCAS costs?
- If not, how could they be effectively included in the cost recovery process?

The costs associated with changes required to support FCAS cost recovery in the WDRM would be expected to significantly outweigh the benefits of inclusion. The marginal benefit for a limited number of participants in the WDRM would not likely warrant any further changes.

Question 9: Are baselines suited for increasing levels of CER?

Baselines will become increasingly inaccurate as CER grows. The subsequent error to estimate counterfactual consumption will grow, amplifying the risks of the baseline approach.