Your ref: EPR0099

24 April 2025

Project Leader, AEMC
Submitted online at: www.aemc.gov.au

Dear Project Leader

Submission: Review of the Wholesale Demand Response Mechanism

CS Energy welcomes the opportunity to provide a submission to the Australian Energy Market Commission's (**AEMC's**) *Consultation Paper – Review of the Wholesale Demand Response Mechanism* (**Consultation Paper**).

About CS Energy

CS Energy is a Queensland-owned and based energy company that provides power to some of the state's biggest industries and employers. We generate and sell electricity in the wholesale and retail markets, and we employ almost 700 people who live and work in the regions where we operate.

CS Energy owns thermal power generation assets, and we are building a more diverse portfolio that includes renewable energy, battery storage, gas fired generation and pumped hydro. We also have a renewable energy offtakes portfolio of almost 300 megawatts, which we supply to our large commercial and industrial customers in Queensland.

Overall views

As the National Electricity Market (**NEM**) transitions to a system with more variable renewable energy resources and lower emissions, the ability to effectively and efficiently manage grid reliability and security against this evolving landscape is crucial. Reforms that facilitate the active participation of supply- and demand-side resources (i.e. a two-sided market) can assist in this transition.

In this context, CS Energy supports the development of effective and adaptable frameworks to encourage demand-side participation that provide enduring consumer benefits. The AEMC's review of the wholesale demand response mechanism (**WDRM**) is timely as the WDRM has been operational for more than three years with questions raised regarding its effectiveness.

Brisbane Office
PO Box 2227
Fortitude Valley BC Qld 4006
Phone 07 3854 7777
Fax 07 3854 7300

Callide Power Station
PO Box 392
Biloela Qld 4715
Phone 07 4992 9329
Fax 07 4992 9328

Kogan Creek Power Station
PO Box 41
Brigalow Qld 4412
Phone 07 4665 2500
Fax 07 4665 2599

CS Energy Ltd ABN 54 078 848 745 **www.csenergy.com.au**

CS Energy considers that the WDRM should be phased out due to its ineffectualness in encouraging a wider range of demand response services and the introduction of new, less complex two-sided market arrangements that would remove the need for the WDRM.

To date, the WDRM has provided limited benefit due to its inability to encourage broad-based demand response assets. This is because the WDRM:

- Is designed to target loads with consistent and predictable shapes, specifically loads with limited variability and seasonal fluctuation. Such an approach limits the types of loads and customers that can participate in the WDRM;

- Has a complex centrally determined baseline methodology with limited flexibility, which reduces customer incentive to partake in the WDRM and prevents service providers from offering simpler contracts to customers; and

- Does not allow retailers to facilitate demand response. This is despite the fact that retailers have greater visibility of a customer's load, generation and consumer energy resource (**CER**) portfolio, which in turn allows for better optimisation of resources and therefore greater benefits for consumers.

This has been demonstrated by the limited participation in the WDRM to date with only two participants (Enel X and VIOTAS) representing 74 MW of capacity since the mechanism began operation in October 2021.

Further, newly established two-sided market frameworks have removed the need for the WDRM. These include:

- The flexible trading rule change that allows controllable and passive resources to be measured/managed separately and the use of in-built measurement capabilities for settlement and billing. Such an arrangement reduces the barrier for demand-side participation and allows for services to be provided at lower cost; and

- The dispatch mode framework that enables demand response resources to be scheduled in the NEM either individually or aggregated. This mechanism allows for resources to bid based on their actual generation and load, which removes the need for a baseline methodology. Further, this framework not only allows retailers to facilitate demand response but also incentivises a wider range of resources to provide demand-side services, including different types of flexible loads (from both large and small customers), small-scale batteries and virtual power plants.

To conclude, the WDRM has been ineffective with limited participation to date, while newly introduced two-sided market arrangements are less complex and more flexible relative to the WDRM and are likely to be more effective in encouraging demand-side participation. It is on this basis that CS Energy considers that the WDRM should be phased out in favour of the new two-sided market mechanisms.

To facilitate the phasing out of the WDRM, CS Energy proposes the establishment of a transitional mechanism that allows existing and recently awarded[1] WDRM capacity to be moved to the new two-sided market framework, i.e. dispatch mode.

[1] Under the New South Wales's Electricity Infrastructure, 95 MW of WDR capacity was awarded in a tender for firming services. This capacity is required to come online by December 2025.

If you would like to discuss this submission, please contact Wei Fang Lim, Market Regulatory Manager, at wlim@csenergy.com.au or on 0455 363 114.

Yours sincerely

Dr Alison Demaria
Head of Policy and Regulation