



Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

29 April 2025

Dear Ms Collyer,

Review of the Wholesale Demand Response Mechanism – consultation paper

ENGIE Australia & New Zealand (ENGIE) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper that seeks to examine the costs, benefits, and effectiveness of the Wholesale Demand Response Mechanism (WDRM) to determine its future viability in the National Electricity Market (NEM).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE operates an asset fleet that includes renewables, gas-powered generation, and battery energy storage systems. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

While ENGIE welcomes the WDRM review, ENGIE notes that the current state of the mechanism offers an opportunity to reflect on how future reforms can be better designed to deliver intended outcomes. Over a decade of debate and significant resources have been invested in the creation of the WDRM, which has seen minimal uptake and limited value delivered to the market.

For this reason, in addition to the subsequent positions outlined in this submission, ENGIE considers that sunsetting the WDRM is an appropriate next step as more effective reforms deliver two-sided market arrangements.

ENGIE's response in the remainder of this submission provides context and reasons for the failure of the WDRM, outlines the continued importance of demand response in the NEM, and sets out considerations for future reforms to ensure that demand response is effectively supported through more fit-for-purpose arrangements and reform.

The WDRM's performance to date

The WDRM was subject to a fervent debate that has demanded considerable resources

ENGIE notes that the WDRM has a long and convoluted history. First recommended in 2011 as part of the AEMC's *Power of Choice Review*, the WDRM has since been the subject of significant decade-long debate.¹ WDRM proponents argued that it would provide a valuable pathway for consumers or third parties to participate directly in the wholesale market and to receive the spot price for reductions in demand. In contrast, critics, including ENGIE, consistently raised concerns that the WDRM would be an unnecessary mechanism that adds another layer of complexity for a service already achievable through existing means.²

Participation in the WDRM has been far below proponents' expectations, representing a significant sunk cost

ENGIE's concerns, briefly highlighted above, have materialised. A key indicator of this failure is the significantly low level of participation in the WDRM, which has ultimately fallen well short of the perceived expectations set by its advocates. As noted in the consultation paper, since the mechanism's commencement in late 2021, only two demand response service providers have registered a combined total of 74 MW of response across 20 wholesale demand response units, resulting in just 1,258 MWh of dispatched response.³ ENGIE contends this level of participation does not represent value for money, with output comparatively dwarfed by the substantial \$23–33 million in estimated costs to implement the WDRM.⁴

The most telling reason participants have largely chosen not to engage with the WDRM is that it has remained more effective for retailers to manage demand response on customers' behalf. Retailers with expertise in this space have continued to offer services to manage demand response services for large customer sites. It is likely that proponents overlooked this established practice with an eye towards theoretical efficiency combined with a potential mistrust of retailers' ability to deliver on behalf of the customer.

Where to from here?

Notwithstanding the failure of the WDRM, demand response is an essential feature of the energy market

ENGIE notes that while the WDRM has largely failed to deliver a fit-for-purpose or widely adopted demand response service, demand response remains, and will continue to be, an important component of a well-functioning electricity market. Demand response will likely be particularly important as the NEM seeks to

¹ Australian Energy Market Commission, *Power of Choice Review*, 2012. [Link](#).

² Australian Energy Market Commission, *Transcript of Proceedings - Pre-Final Rule Determination Hearing - Wholesale Demand Response Mechanism Rule Change Request*, 2019. [Link](#); ENGIE, *Submission to Wholesale Demand Response Mechanism – Draft Determination*, 2019. [Link](#); ENGIE, *Submission to Wholesale Demand Response Mechanism – Second Draft Determination*, 2020. [Link](#).

³ Australian Energy Market Commission, *Review of the Wholesale Demand Response Mechanism - Consultation Paper*, 2025. [Link](#).

⁴ Ibid.

decarbonise, where the forecast closure of coal-fired power stations is expected to reduce the volume of dispatchable generation available to meet system needs. Without sufficient flexible demand-side resources, this reduction in firm generation capacity may contribute to increased price volatility and reduced system reliability during periods of peak demand or low renewable generation.

The WDRM should sunset to make way for more appropriate two-sided market arrangements and reform to enable demand response to thrive in the NEM

ENGIE notes that in establishing the WDRM, the Commission stated that if there is a move to a two-sided market, this reform should replace the WDRM.⁵ It appears that this move has materialised as recent reforms, including *Unlocking CER benefits through flexible trading* and *Integrating price-responsive resources into the NEM*, have progressed two-sided market arrangements in the NEM. ENGIE agrees with the consultation paper's assertion that together, these reforms are likely to address the very issues the WDRM was intended to resolve, but in a more practical and scalable manner.⁶

In light of these new reforms, in tandem with the isolated failure of the WDRM itself, ENGIE considers it may be appropriate that the WDRM undergo a phased retirement to provide sufficient runway for existing demand response service providers to transition out of the WDRM.

The WDRM review is a timely reminder about the importance of implementing reform based on objective merit

ENGIE supports the work of the Commission and notes it continues to perform an important role in guiding the development of the energy market. With this support in mind, ENGIE notes that the WDRM is a useful example of what happens when rule changes are considered without proper allocation of risk, acknowledgment of practical market conditions, and not considering the long-term costs and benefits. ENGIE contends that reform should not be implemented simply because it is widely advocated, but only when well-evidenced and clearly articulated ideas lead to changes in what has, overall, been a highly successful electricity market.

⁵ Australian Energy Market Commission, *Wholesale Demand Response Mechanism - Final Determination*, 2020. [Link](#).

⁶ Australian Energy Market Commission, *Review of the Wholesale Demand Response Mechanism - Consultation Paper*, 2025. [Link](#).

Concluding remarks

ENGIE looks forward to working with the AEMC as it seeks to examine the costs, benefits and effectiveness of the WDRM and determine its future viability in the NEM.

Should you have any queries in relation to this submission, please do not hesitate to contact me by telephone on 0400 731 274.

Yours sincerely,

Ronan Cotter

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