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3 April 2025

Harry Gibbs  
Senior Adviser  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Submitted electronically

Dear Mr Gibbs,

**Re: Review of the Wholesale Demand Response Mechanism**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make this submission to Australian Energy Market Commission's (the Commission's) review of the Wholesale Demand Response Mechanism (WDRM).

The initial rationale for the WDRM was not compelling and subsequent regulatory initiatives mean that it is now largely redundant. In particular, recent moves towards a two sided market, such as the *Integrating Price Responsive Resources* and *Unlocking CER Benefits through Flexible Trading* initiatives will complement the existing commercial incentive for retailers to work with their customers to identify and develop demand response opportunities.

We have seen very limited participation in the WDRM since its introduction. The Commission will be aware that only two Demand Response Service Providers have registered a combined 74 MW of demand response. In our view, this is a reflection of the alternatives available to energy consumers through the market and through funding mechanisms such as the NSW Energy Roadmap. The latter includes three demand response projects with 95 MWs of capacity, awarded through Tender Round 2. Looking ahead, the NEM Wholesale Market Settings Review will also consider the role of demand response. We see little need to maintain the WDRM in this context.

Another issue with the WDRM is its complexity. It relies on arbitrary baselines to estimate the counterfactual level of consumption without any demand response. Baselines have always been difficult to forecast with any degree of accuracy and are a function of a broad range of factors, only one of which is energy market outcomes. As the Commission rightly points out, if baselines are set too high, consumers will pay more than they need to. If they are too low, there will not be enough incentive to encourage demand response in the market.



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Furthermore, the WDRM settlement model also raises a financial exposure for retailers with large customers whose contracts permit them to reduce peak demand. This is due to the fact that the reimbursement rate for DRSPs is based on a rolling average of wholesale spot prices in the previous 12 months during peak demand periods instead of peak forward prices reflecting the periods demand response would be provided.

### **About Red and Lumo**

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland and South Australia and the ACT to over 1.4 million customers. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager, on 0481 013 988.

Yours sincerely

**Geoff Hargreaves**

Manager - Regulatory Affairs

**Red Energy Pty Ltd**

**Lumo Energy (Australia) Pty Ltd**