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

14 August 2025

Dear Ms Collyer,

Review of the Wholesale Demand Response Mechanism – draft report

ENGIE Australia & New Zealand (ENGIE) welcomes the opportunity to respond to the Australian Energy Market Commission (the Commission) regarding its draft report findings that the Wholesale Demand Response Mechanism (WDRM) should continue operating, and that the *Expanding eligibility under the WDRM* rule change request be initiated.

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.

ENGIE does not support the Commission's draft report recommendations to continue operation of the WDRM and to progress arrangements to expand the WDRM to include multiple connection points. While ENGIE notes demand response will continue to be an essential feature of the National Electricity Market (NEM), steps to retain or expand the WDRM should be grounded in demonstrated value and evidence, rather than speculation of future participant uptake or interest. Expanding the largely unused WDRM in the hope that participation will materialise does not reflect efficient market design, as this approach relies on assumptions in future engagement that overlook the WDRM's track record of underperformance.

ENGIE maintains the view outlined in its submission to the consultation paper that the WDRM should be phased out with appropriate grandfathering arrangements for incumbent demand response providers.[1] With this context in mind, the remainder of this submission sets out ENGIE's more detailed response to the draft report, including feedback on areas of concern associated with:

[1] ENGIE, *Submission to the Review of the WDRM – Consultation Paper*, 2025. Link.

- the Commission opting to persist with the WDRM despite its lack of participation to date;
- the reasoning behind the Commission's recommendation to initiate the *Expanding Eligibility Under the WDRM* rule change request and;
- the role of the WDRM amidst more appropriate two-sided market reforms.

The Commission needs to further unpack why the WDRM has experienced such underwhelming use

ENGIE, like other stakeholders, provided feedback in submissions to the consultation paper that participation in the WDRM has fallen significantly short of proponents' expectations, with significant sunk costs.[2] To briefly recap, only two demand response providers have participated in the WDRM and have delivered a total of 1000 MWh of response over four years since its inception[3] which is less than the 1,200 MWh each year originally analysed by the Commission.[4]

While the Commission has acknowledged these facts, the draft report does not provide any explanation for the drivers behind the WDRM's low participation to date, nor does it take into account the implementation costs of $14.8 million[5] incurred by AEMO as part of its evidence base to inform its findings in the draft report. Past performance is fundamental to any review and as such, ENGIE disagrees with the exclusion of these facts based on the Commission's predication that the review is 'considering the future of the WDRM'.[6]

Before recommending the continuation of the WDRM, or arrangements to expand it, the Commission should first meaningfully consider the significant implementation costs (not just the ongoing costs) of the WDRM and the key drivers behind lower than expected WDRM participation to date. An understanding of past performance would better enable the Commission to better gauge whether the low participation in the WDRM can be resolved going forward.

Expanding the WDRM without clear evidence the status quo will change risks undermining sound market design

ENGIE is concerned that the justification for the expansion in the WDRM is seemingly grounded on a "build it and they will come" mentality, which is generally atypical of proper market design. For example, the Commission notes in the draft report the growing demand for data centres in Australia and postulates that these facilities have an opportunity to engage with the WDRM. While ENGIE acknowledges their potential, Enel X has highlighted that questions remain regarding how data centre participation in demand response

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[2] Ibid.

[3] AEMO, *Wholesale Demand Response Annual Report*, 2025. Link.

[4] AEMC, *Review of the WDRM – Consultation Paper*, 2025. Link.

[5] AEMO, *Submission to the Review of the WDRM – Consultation Paper,* 2025. Link.

[6] AEMC, *Review of the WDRM – Draft Report*, 2025. Link.

works across different business models.[7] These challenges span a range of business considerations, including how operators weigh power savings against uptime, and the extent to which checkpointing may affect convergence of large-scale AI training. For the time being, data centre participation in the WDRM remains largely premature even for workloads often cited as candidates for flexible scheduling.

Given these uncertainties, ENGIE is concerned that progressing arrangements to grow the WDRM may result in the expansion of a mechanism sans a proper participant base. ENGIE contends that without a robust understanding of the practical appetite and operational feasibility for data centres to realistically engage with the WDRM, there is a risk that the WDRM continues to not function as intended and is continually viewed as a case study of suboptimal market design - conceptually intriguing, but operationally impractical.

Separately, ENGIE is also concerned that government incentives may be distorting objective appetite for demand response providers to participate in the WDRM. The draft report notes that the WDRM is being utilised in the New South Wales (NSW) Long-Term Energy Service Agreements, with 95 MW of WDRM capacity awarded and expected to be registered by December 2025.[8] While this may be construed as further engagement with the WDRM, it may be worth considering whether this example of observed uptake of the WDRM is a reflection of the WDRM's inherent market value or rather the availability of underwriting support from the NSW government making the WDRM more attractive.

The Commission needs to clearly articulate how the WDRM will fit in with two-sided market reforms originally envisioned to replace it

ENGIE is concerned that the Commission's decision to persist with the WDRM contradicts the conditions for which the WDRM was originally implemented. At the time of the decision to implement the WDRM, the Commission stated in its final determination that that:

> *"The WDRM will eventually be outgrown by the market because it is reliant on the use of centrally determined baselines. If the move to a two-sided market is made, this reform should replace the WDRM."*[9]

The move to a two-sided market has largely materialised given the *Integrating price-responsive resources into the NEM* and *Unlocking consumer energy resources benefits through flexible trading* rule changes have now come into effect; however, the Commission's draft report does not recommend that the WDRM be replaced. With respect for a desire to understand how these newer rule changes may play out in the long run, ENGIE is concerned that maintaining WDRM in parallel with these reforms may ultimately impede the development of a more efficient two-sided market.

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[7] Enel X, *Why energy strategy is key to data centre growth*, n.d.. Link.

[8] AEMO Services, *NSW Roadmap – LTESA Tender Round 2*, 2024. Link.

[9] AEMC, *Wholesale Demand Response Mechanism – Final Determination*, 2020. Link.

ENGIE encourages the Commission to reconsider whether the continued operation of WDRM remains justified in light of the broader reform landscape. To help inform the answer, ENGIE contends that the Commission undertake a more rigorous gap analysis (beyond the short paragraph in the draft report) to ensure the WDRM is indeed filling a mutually exclusive, collectively exhaustive gap in providing a meaningful demand response mechanism to willing participants.

Concluding remarks

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

Ronan Cotter
Regulatory Advisor