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14 August 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: Draft report**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to comment on the Australian Energy Market Commission's (the Commission's) Draft Report regarding its assessment of the Wholesale Demand Response Mechanism (WDRM).

Red and Lumo Energy oppose the Commission's draft rule to maintain the WDRM. Our view remains that it is administratively complex and redundant in light of the *Integrating Price Responsive Resources (IPRR)* initiative. Furthermore, it is unlikely to align with the outcomes of current consultations by the Department of Climate Change, Energy, the Environment and Water on how best to integrate consumer energy resources and encourage their participation in wholesale and FCAS markets, and the National Electricity Market wholesale market settings review.

We recommend its discontinuation by May 23, 2027, to align with the introduction of 'dispatch mode' into the National Electricity Market (NEM). This would allow existing Demand Response Service Providers (DRSPs) to monetize their demand-side resources using dispatch mode, thereby avoiding the complexities of WDRM baselines. Concurrently, retailers would be insulated from the financial risks associated with the WDRM settlement model. Ultimately, we advocate for the abolishment of the WDRM, as operating two demand response schemes in the NEM is inefficient and inconsistent with the National Electricity Objective.

Our key arguments supporting this position are expanded upon below:

1. IPRR will enable unscheduled price-responsive resources to be scheduled and dispatched similarly to large-scale generators. This will allow existing demand responsive participants to obtain value by bidding into central dispatch. This change will require only minor operational adjustments to adapt to the new dispatch mode.



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2. Maintaining the WDRM solely for existing users to monetize their demand side resources is inefficient. The Commission's quantitative analysis, which suggests the WDRM provides a 'net benefit', is misleading. Even if the WDRM delivers a net economic benefit, it remains inefficient to operate two demand-side schemes in the NEM, given that participants can already monetize their resources through the dispatch mode.
3. The complexity of the WDRM is a significant concern. Its reliance on arbitrary baselines to estimate consumption without demand response poses a challenge, as these baselines are notoriously difficult to forecast accurately. Their accuracy is influenced by various factors, not solely energy market outcomes. As the Commission rightly points out, improperly set baselines—too high or too low—can lead to consumer overpayment or insufficient incentives for demand response, respectively.
4. The WDRM settlement model presents a financial risk to retailers with large customers who have contracts allowing them to reduce peak demand. This is because the reimbursement rate for Demand Response Service Providers (DRSPs) is calculated using a 12-month rolling average of wholesale spot prices during peak demand periods. In our view, this method does not accurately reflect peak forward prices, which are typically used by retailers for hedging and are more indicative of when demand response would likely occur.

Should the Commission abolish the WDRM upon the introduction of dispatch mode, DRSPs will likely utilise dispatch mode as a preferable alternative, even if they had previously indicated they would not. As long as DRSPs can monetise their demand side resources, they will participate in the new two-sided market.

### **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 1.5 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

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