

Review of the Wholesale Demand Response Mechanism

We have made two recommendations

The Australian Energy Market Commission (AEMC or Commission) has reviewed the role and performance of the wholesale demand response mechanism (WDRM). We have made two recommendations: that the WDRM should continue operating; and that the Expanding eligibility under the WDRM rule change request be initiated. These recommendations are consistent with the draft report.

The WDRM continues to play a useful role in the NEM

The WDRM was established on 11 June 2020 and commenced on 24 October 2021. The WDRM allows demand response service providers (DRSP) to offer demand response into the national electricity market (NEM), where it can be dispatched and paid for in the same way as generators. This is currently the only market mechanism in the NEM wholesale market that facilitates demand response, that is, payment for reducing load. It is also the only mechanism that allows non financially responsible market participants to participate in the NEM.

These features enable some electricity users to have their demand response participation effectively incorporated into market outcomes, which benefits all electricity consumers. These features also mean that existing WDRM participants would be unlikely to participate through alternative mechanisms.

This means that if the WDRM was phased out existing WDR participants may not continue to participate in the wholesale market, with associated loss of dispatch efficiency benefits.

The WDRM is providing benefits

The Commission's analysis has also estimated that between October 2021 and June 2025, the WDRM has resulted in:

- \$5.32 million (\$1.42 million per year) of dispatch efficiency benefits
- \$42,757 emissions reduction benefits.

These benefits show that the WDRM is providing efficiency benefits greater than its operational costs of \$350,000 - \$500,000 per year. The WDRM has also contributed to downward pressure on wholesale prices, with average price savings of \$27.83/MWh during WDR dispatch. While there are costs associated with operating the mechanism, we have assessed that these do not outweigh the benefits and have observed that there would be costs associated with dismantling it.

The consultation paper and stakeholder submissions identified several potential changes to the WDRM's design that could increase participation in and the effectiveness of the WDRM. The Commission does not recommend further work be progressed to investigate these changes to the design of the WDRM at this time. In making this recommendation, we considered stakeholder views and our own analysis, and consider that the complexity and uncertain benefits of these changes do not warrant further investigation.

Based on the Commission's recommendation that the WDRM should continue, we also recommend that the pending rule change request seeking to allow sites with multiple connection points to participate in the WDRM be initiated. If made, the proposed rules from this request have the potential to immediately allow new participation and may not require significant changes to the WDRM design. Progressing this request through the rule change process will determine the materiality of these benefits and compare them against the potential costs.

Recent market reforms will boost demand-side participation

Introducing the WDRM in 2020 was a move towards improving demand-side participation in the market by involving the demand side in price setting during high-priced intervals. Since the WDRM final rule, the Commission has continued to progress this through the Unlocking CER benefits through flexible trading (CER benefits) and Integrating price-responsive resources into the NEM (IPRR) rule changes:

- The CER benefits rule enables energy service providers for small and large customers to separately manage 'flexible' CER from 'passive' loads by establishing secondary settlement points in the energy market. Market participants will also be able to use in-built measurement capability in technology such as electric vehicle chargers and household batteries, removing the need to install a separate meter to the device.
- IPRR introduced the voluntarily scheduled resource (VSR) nomination framework that allows currently unscheduled price-responsive resources to be scheduled and dispatchable in the NEM, in aggregations or individually. This is informally referred to as 'dispatch mode'. It allows virtual power plants (VPP), community batteries, flexible large loads and other price-responsive small resources to compete with large-scale generators and storage in the wholesale market.

Through the combination of these two reforms, participants can separate flexible and inflexible resources behind a connection point and participate in dispatch mode with the flexible or controllable resources. As a result, these two reforms provide a flexible and robust method for demand-side participation in the NEM dispatch process for many electricity users.

Next steps

The AEMC currently anticipates initiating the Expanding eligibility under the WDRM rule change in 2026. This process will enable a full consideration of the benefits and costs of allowing sites with multiple connection points to participate in the WDRM to inform a decision on whether such a change should be made.

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