

Terms of Reference

Review of the Wholesale Demand Response Mechanism EPR0099

Overview

The wholesale demand response mechanism (WDRM) was established through a rule made on 11 June 2020 and commenced operation in the national electricity market (NEM) on 24 October 2021.

In establishing the WDRM, the Australian Energy Market Commission (AEMC) noted that progressing two-sided market reforms would be the enduring solution for engaging demand-side participation in the NEM. It also committed, by making a rule, to reviewing the mechanism's costs, benefits and effectiveness.

On 30 May 2024, the AEMC stated it would complete the review by 24 October 2025. This was to allow time to properly investigate the impact of two-sided market options in the closely related reforms of *Integrating price-responsive resources into the NEM* (IPRR) and *Unlocking CER benefits through flexible trading* rule changes.

These terms of reference set out the review's objective and scope and outline how the AEMC will meet this objective.

What is the Wholesale Demand Response Mechanism

The WDRM allows demand response service providers (DRSP) to offer demand response into the NEM, where it can be dispatched and paid like existing generators. Enabling such participation in the NEM provides for a greater volume of resources to assist with managing tight supply-demand conditions and shares the benefits of this participation with all consumers.

DRSPs are the only participants that can classify one or aggregate multiple qualifying loads as a wholesale demand response unit (WDRU). A key aspect of enabling participation in the NEM as a DRSP is the accurate identification of a baseline demand level for that participant's loads. Baselines estimate the counterfactual level of consumption that would have occurred were it not for the demand response. The quantity of demand response sold (and paid for) is determined as the difference between the baseline and actual levels of consumption.

Objective and scope of this review

Under clause 3.10.7 of the NER, the AEMC must consider the costs, benefits and effectiveness of the WDRM having regard to:

1. the impact of the arrangements on the spot price
2. the accuracy of baseline methodologies
3. market and technological development
4. any other matters relating to wholesale demand response that the AEMC considers relevant.

To meet this objective the AEMC will consider, among other things:

- the impact the WDRM has had on spot prices and the accuracy of baseline methodologies
- what mechanisms are available for the demand side to participate in the NEM and where the WDRM fits as part of the mechanisms available
- whether market and technological advancements reduced or removed the need for the mechanism
- whether the WDRM and the baselining approach are suitable for a future with greater levels of CER and device orchestration
- if the WDRM should be retained, modified or gradually phased out, based on the above considerations.

Any recommendation made by the Commission will be considered against the national electricity objective.

Review deliverables and timing

Clause 3.10.7 of the NER requires that the AEMC complete this review by 24 October 2024. As outlined above, this date has been extended by one year to 23 October 2025. The AEMC is required to conduct this review in accordance with the standard rules consultation procedure in clause 8.9.2 of the NER.

The AEMC will undertake two rounds of consultation during this review, and any other stakeholder engagement as relevant, and plans to publish:

- A consultation paper on 13 March 2025
- A draft report in July 2025
- A final report by 23 October 2025.

Related reforms

As part of this review, the AEMC will consider the impact of the following rule changes on the WDRM.

Unlocking CER benefits through flexible trading rule change — The rule enables large customers to engage multiple energy service providers at their premises more easily to manage and obtain more value from their CER. These arrangements are designed to make it easier for energy service providers to offer products and services to businesses to unlock the value of flexible CER.

Under these new arrangements, large customers can choose to engage a different energy service provider for their flexible load. Doing so may impact DRSPs' ability to register these loads as WDRUs or sign-up customers if another provider is using their flexible load.

Integrating price-responsive resources into the NEM rule change – The rule established a dispatch mode into the NEM, allowing unscheduled price-responsive resources to be scheduled and dispatchable in the NEM, in aggregation or individually.

This rule is intended to allow flexible large loads and other price-responsive resources to participate in the central dispatch process.

Dispatch mode does not require a baseline for participation, instead using primary price signals. It also provides greater visibility of responsive resources to AEMO and the market. This may mean that dispatch mode is a more effective mechanism for allowing responsive loads to participate in central dispatch.