

# Introduction

## The origins of the Act

- 1.1 In November 1997, the Prime Minister, the Hon. John Howard MP, announced a package of national greenhouse response measures, *Safeguarding the Future: Australia's Response to Climate Change*, which included the following initiative:

*Targets will be set for the inclusion of renewable energy in electricity generation by the year 2010. Electricity retailers and other large electricity buyers will be legally required to source an additional 2 percent of their electricity from renewable or specified waste-product energy sources by 2010 (included through direct investment in alternative renewable energy sources such as solar hot water heaters). This will accelerate the uptake of renewable energy in grid-based power applications, and provide an ongoing base for commercially competitive renewable energy. The program will also contribute to the development of internationally competitive industries which could participate effectively in the burgeoning Asian energy market.*

- 1.2 This initiative, now known as the Mandatory Renewable Energy Target (MRET), is one of a number of Australian Government greenhouse gas abatement measures and has a strong focus on renewable energy generation and industry development. This focus recognises that emissions from fossil fuels used in electricity generation comprise around one third of Australia's total greenhouse emissions, and that increases in market penetration of renewable energy can help displace fossil fuel emissions and improve Australia's greenhouse and renewable energy industry performance.

## Implementation of the Act

- 1.3 The *Renewable Energy (Electricity) Act 2000* (the Act) establishes the legislative framework for MRET. The Act is supported by the *Renewable Energy (Electricity) (Charge) Act 2000* and the *Renewable Energy (Electricity) Regulations 2001*.
- 1.4 The legislation is administered by a Commonwealth statutory authority, the Office of the Renewable Energy Regulator (ORER).

- 1.5 The effect of the legislation is to place a legal liability on wholesale purchasers of electricity to proportionately contribute towards the MRET target of an additional 9500 gigawatt hours (GWh) of renewable electricity per annum by 2010.<sup>6</sup>
- 1.6 Under current settings, this MRET target of 9500 GWh is scheduled to remain in place until 2020.

*Renewable Energy Certificates (RECs)*

- 1.7 RECs are created by generators accredited by ORER, with each certificate equivalent to one megawatt hour (MWh) of renewable generation.
- 1.8 RECs can be created at any time after eligible generation, upon provision of the required evidence. RECs can also be traded in financial markets that are separate from physical electricity markets. RECs may be banked by eligible generators, liable parties and REC market participants and they remain valid until surrendered.

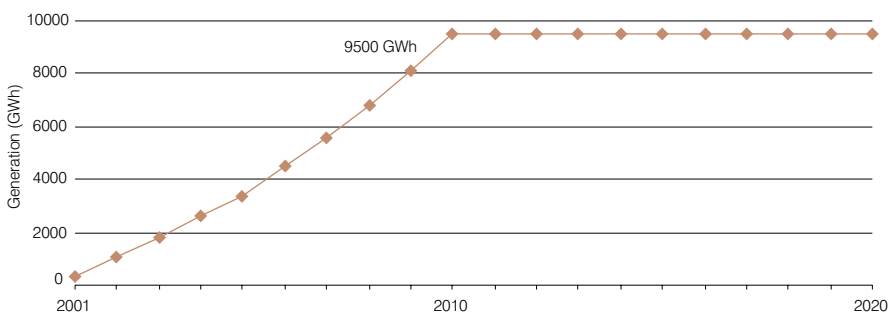
*Liability*

- 1.9 Liable parties are proportionally responsible for meeting their share of the measure. For example, if a liable party purchases ten per cent of the liable electricity they must meet ten per cent of the target level for that year.
- 1.10 Liable parties are required to annually surrender RECs equal to their obligation, with certificates expiring as a result of this process. Liable parties can negotiate contracts directly to acquire RECs with renewable energy generators or REC market participants.

*Phasing of the target*

- 1.11 The 9500 GWh target is being phased over time with a series of interim targets over the period 2001 to 2010 and then continuing at that level through to 2020, as shown in Figure 6 below.

**Figure 6**—MRET target to 2020



<sup>6</sup> The measure applies to electricity sales on all grids of over 100 MW capacity attracting liability. The measure applies to all wholesale electricity purchasers on liable grids. Self-generators are generally excluded as liable parties, except to the extent that they make wholesale purchases.

### *Eligible Renewable Energy Sources*

- 1.12 A range of renewable energy sources and technologies is currently eligible including hydro, wind, solar and various biomass products.<sup>7</sup>
- 1.13 Fossil fuels and fossil fuel derived waste products are not eligible under the measure.<sup>8</sup>

### *Eligible renewable energy generators*

- 1.14 Accredited generators which commenced operating on or after 1 January 1997 can earn RECs for all eligible electricity following accreditation. Pre-existing generators can only earn RECs for an increase in output above agreed baselines.

### *Shortfall charge*

- 1.15 Achievement of the 9500 GWh and interim targets prior to 2010 is underpinned by a \$40 per MWh shortfall charge. The shortfall charge is not indexed to inflation and consequently over time it declines in real terms. Payment of shortfall charges incurred by liable parties are not tax deductible, and so the shortfall charge is equivalent to around \$57 for corporate entities paying the full 30 per cent company tax rate.
- 1.16 Shortfall charges are redeemable if shortfalls are made up within three years. A leeway of up to 10 per cent is allowed in meeting targets.

### *Role of the regulator*

- 1.17 The Office of the Renewable Energy Regulator has been established to administer the legislation, including its enforcement through the imposition of penalties and the conducting of audits. The roles of ORER include:
- accrediting renewable energy generators and determining baselines for existing generators
  - ensuring that RECs are validly issued
  - maintaining a list of liable grids
  - tracking the creation and trade of RECs
  - assisting liable parties in determining liabilities
  - retiring RECs for compliance purposes
  - other administrative procedures as required for the effective operation of the measure.

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<sup>7</sup> Under section 17 of the Act, Eligible Renewable Energy Sources and technologies are hydro power; wind; solar; bagasse co-generation; black liquor; wood waste; energy crops; crop waste; food and agricultural wet waste; landfill gas; municipal solid waste combustion; sewage gas; geothermal-aquifer; tidal; photovoltaic and photovoltaic Renewable Stand Alone Power Supply systems; wind and wind hybrid Renewable Stand Alone Power Supply systems; micro hydro Renewable Stand Alone Power Supply systems; solar hot water (which displace electricity); co-firing; wave; ocean; fuel cells; and hot dry rocks.

<sup>8</sup> Section 17 of the Act excludes coal seam methane; waste coal mine gas and other coal or natural gas based products; waste heat from cogeneration; electricity production from cogeneration based on fossil fuels; and non-biomass component of co-firing or wastes.

## The review panel's approach

- 1.18 Section 162 of the Act provides for an independent review of the operation of the Act and also specifies a number of matters to be considered under the review. These matters are specified in the Terms of Reference.
- 1.19 The appointment of the Review Panel was announced by the Minister for the Environment and Heritage, the Hon. Dr David Kemp MP and the Minister for Industry, Tourism and Resources, the Hon. Ian Macfarlane MP on 25 March 2003. A copy of the announcement is set out in Appendix 1. The Terms of Reference were expanded from those specified in the Act to take into consideration views from interested parties expressed during a public submission process conducted during 2002.
- 1.20 Assisted by an independent secretariat staffed by officers from the Australian Greenhouse Office (AGO) and the Department of Industry, Tourism and Resources, the Review Panel sought to conduct the Review in an open, timely and transparent manner.
- 1.21 Key features of the review process were:

### *Call for submissions*

- 1.22 Advertisements were placed in sixty-eight newspapers, including national, capital city, and regional publications across Australia, calling for written submissions against the Review's Terms of Reference.
- 1.23 Interested parties were initially given four weeks to respond. Following receipt of several requests, the Review Panel extended the time available for lodging submissions by a further two weeks and advised that it would consider further extensions, upon request.

### *Access to information*

- 1.24 A Review website was established along with an e-mail address, fax and phone lines. These facilitated public communication and access to information on the review. An information kit for interested parties was released to facilitate the preparation of written submissions.

### *Publication of submissions*

- 1.25 Where submissions contained confidential or commercially sensitive material this information was not published however parties were asked to agree to the publication of the residual submission. A small number of submissions requested and were granted confidentiality.

- 1.26 The Review Panel received 264 substantive submissions and more than 4800 petitions, consisting of three different types of 'campaign' submissions.
- 1.27 A list of parties making detailed submissions is set out at Appendix 2 and copies of campaign submission templates are included at Appendix 3.

#### *Consultations*

- 1.28 The Review Panel consulted directly with interested parties in all States and Territories, including regional centres. Around 115 meetings were held with:
- industry associations
  - renewable energy generators
  - large energy and electricity users
  - electricity retailers
  - environment and conservation organisations
  - financiers and investment houses
  - researchers and academics
  - renewable technology companies and proponents
  - electricity transmission companies
  - State, Territory and Local governments
  - community organisations.
- 1.29 Appendix 4 contains a list of interested parties with whom the Review Panel held formal consultations.

#### *Renewable Energy Site Visits*

- 1.30 The Review Panel also undertook site visits across a range of different renewable energy technologies and projects, typically in regional Australia. A list of sites visited is at Appendix 5.
- 1.31 The Review Panel is satisfied that the breadth and depth of submissions received from the many interested parties, together with views expressed and information gained during consultations and site visits, supplemented by some commissioned consultancies, provided a comprehensive basis for it to prepare a considered report for the Government.

## Broader policy considerations

1.32 In conducting this Review and preparing this Report, the Review Panel has been particularly mindful of the broader policy environment within which MRET operates, especially:

- Energy policy considerations, particularly the pending Council of Australian Government's response to the December 2002 report *Towards a Truly National and Efficient Energy Market* (known as the 'Parer Report') which, among a wide range of recommendations for national energy reforms, proposed the introduction of a national emissions trading system and, following its announcement, the cessation of a broad range of existing Australian, State and Territory government measures, including MRET.
- Environment policy considerations, particularly the role of MRET in contributing to the Australian Government's greenhouse response both in terms of meeting Australia's emissions target agreed at Kyoto, and in the current development of a forward strategy to address climate change.
- Industry policy considerations, particularly the role of MRET in contributing to the Renewable Energy Action Agenda, released in June 2000 which has a longer term vision of achieving a sustainable and internationally competitive renewable energy that has sales of \$4 billion annually by 2010.

1.33 Also, in assessing the impact of MRET to date, the Review Panel has given consideration to broader employment and regional policy implications, given that one of the distinguishing features of the renewable energy industry is its capacity to generate employment opportunities in regional Australia.

## The review panel's report

1.34 The remainder of this report constitutes its main substance, as follows:

- Chapter 2, 'Progress Towards MRET Objectives' examines progress to date towards the achievement of MRET's policy objectives as set out in the Act and the Second Reading Speech.
- Chapter 3, 'Wider Impacts of the MRET Measure' examines the wider impact of MRET across these important policy areas.
- Chapters 4 to 6 address MRET and its interaction with relevant Australian Government, State and Territory energy, environment and industry policies, respectively.

- Chapters 7 and 8 address the main features of the MRET measure and further operational aspects. These chapters also take into consideration issues raised by interested parties during the course of the Review.