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Climate change

Mandatory Renewable Energy Target — explaining the legislation

Australia's electricity profile was and still is highly dependent on fossil fuels due to its cheaper production cost compared to renewable sources.

However, in response to the pressing issue of climate change, a Mandatory Renewable Energy Target (MRET) was introduced in Australia in 1997 just before the third conference of the parties to the UN Framework Convention on Climate Change (UNFCCC). The MRET scheme requires the electricity sector to increase renewable energy generation to 9,500 gigawatt hours (GWh) by 2010.

The aim is to provide a renewable energy sector to decrease Australia's dependence on fossil fuels for energy production.

In 2007, following ratification of the Kyoto Protocol, the Rudd Government made a decision to implement an emissions trading scheme to achieve least cost abatement of greenhouse gas emissions and, at the same time, to increase the MRET to 45,000 GWh by 2020. The Commonwealth Government has released draft legislation to give effect to these decisions for public comment.

HOW DOES THE SCHEME WORK?

Electricity retailers and wholesale purchasers of electricity ('liable entities') are required to contribute to the generation of renewable energy by purchasing Renewable Energy Certificates (RECs). RECs are created by renewable installations of:

- solar water heaters;
- small generation units (SGU); and
- new power stations.

An REC is currently equivalent to one megawatt-hour (MWh). The number of RECs each liable entity must acquire reflects its share of the national wholesale electricity market. If a liable entity does not have enough RECs to satisfy its scheme obligations each year, it will incur a shortfall charge.

RECs are traded directly between registered REC creators and liable entities. RECs must be registered before being traded with the scheme regulator, the Office of the Renewable Energy Regulator (ORER).

ORER is also responsible for accrediting power stations, setting standards for solar water heaters, running registers for REC generation and verifying surrender of RECs.

POLICY AND THE LAW

The Renewable Energy (Electricity) Act 2000 and the *Renewable Energy (Electricity) (Charge) Act 2000* provide the legal framework binding liable entities to participate in the renewable energy market, and to keep records for compliance purposes.

The Acts provide for a series of annual Renewable Energy Targets (RETs), starting with low interim targets that increase annually until, by 2010, the RET reaches 9,500 GWh. The Acts spread the costs of achieving the annual target across the liable entities.

Support for the RET is found within these Acts in the creation of the following enforcement concepts: shortfall charges, 'name and shame' provisions, and criminal sanctions for serious breaches of the law.

The Acts also contain policy principles for renewable energy generation that are not expressly defined. For example, 'cost-effectiveness' is not mentioned explicitly, but is amply demonstrated in the widest possible sharing of the annual costs of the RET (as liable entities pass on their scheme costs to consumers). 'Additionality' is barely mentioned, but is fundamental to the '1997 baseline case' definition and also the eligibility criteria for creation of RECs.

The overarching principle of these Acts is that the Government allows the market to determine how best to allocate resources to increase supply of renewable energy in Australia, without:

- dictating when or where in each State renewable energy generation will occur;
- showing preference for one kind of renewable energy over another; or
- intervening in trading between the buyer and seller of energy.

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HAS THE MRET SCHEME BEEN A SUCCESS?

Renewable energy generated from 1980 until the MRET came into effect in 2001 was fairly stable. Since then, renewable energy generation has increased in line with the annual RET. If not for the MRET scheme, the annual growth of the renewable energy sector would not have reached its current level.

FUTURE OF THE MRET SCHEME

According to the White Paper for the Carbon Pollution Reduction Scheme (CPRS), the MRET scheme will be phased out between 2020 and 2030. By this date, it is envisaged that the renewable energy sector will be mature and that the CPRS will be responsible for achieving least cost abatement of fossil fuel generated electricity.

MORE INFORMATION

The ORER operates two websites:

www.orer.gov.au and <https://www.rec-registry.gov.au>

No rebates or other supply-side options are created by the MRET laws;

all rebates for solar water heaters are available from the Federal Government.

For rebates, refer to the website of the Department of the Environment Water, Heritage and the Arts:

www.environment.gov.au/rebates/index.html

Refer also to the Western Australian Government renewable energy program at:

www1.sedo.energy.wa.gov.au/pages/renewable_energy.asp

The Australian renewable energy atlas is a useful renewable energy resource:

www.environment.gov.au/settlements/renewable/index.html

The Kyoto Protocol can be found at:

http://unfccc.int/kyoto_protocol/items/2830.php