Australian Government

Office of the Renewable Energy Regulator

Increasing Australia's renewable electricity generation

ANNUAL REPORT 2006

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The Hon Malcolm Turnbull MP
Minister for the Environment and Water Resources

Dear Minister

I am pleased to present to you the sixth Annual Report of the Office of the Renewable Energy Regulator.

This 2006 Annual Report focuses on the working of the *Renewable Energy (Electricity) Act 2000* for the calendar year.

The report is submitted for presentation to the Parliament in accordance with section 105 of the *Renewable Energy (Electricity) Act 2000*.

Yours sincerely

David Rossiter
Renewable Energy Regulator

April 2007

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Glossary

AAT
Administrative Appeals Tribunal

Accreditation
A process of determining if a power station is eligible to participate in the MRET and contribute to the achievement of annual targets

AEAS
Annual energy acquisition statement

Agents
Agents are registered persons that are able to create RECs on behalf of owners of eligible solar water heater or small generation unit installations who assigned their right to create RECs to the agent

Baseline
Baselines are determined by the Regulator for accredited power stations. Only renewable electricity generated above the annual baseline is eligible for RECs. A baseline for a power station that first generated electricity on or after 1 January 1997 is zero

Compliance date
Eligible and liable parties must report their electricity generation and REC creation (for eligible parties) and surrender of RECs (for liable parties) generally by 14 February of the year following the compliance period

Compliance period
The period, over which each annual target must be achieved, which, except for 2001, is a full calendar year

Deemed unit
A solar water heater or small generation unit installation that is eligible for REC creation. The number of RECs able to be created by a deemed unit is set out in the Regulations

EGR
Electricity generation return

Eligibility
The eligibility to create RECs

Eligible Parties
Parties that are eligible to create RECs for renewable electricity generated by accredited power stations or deemed units.

IBRS
Internet based registry system, which is also refered to as the REC Registry
Website www.rec-registry.gov.au

kW
Kilowatt—one thousand watts

kWh
Kilowatt-hour—a measure of electricity generation. One thousand watt hours

Liability
The liability to surrender RECs or pay a renewable energy shortfall charge

Liable Parties
Wholesale purchasers of electricity

Minister
Minister for the Environment and Water Resources

MRET
The Mandatory Renewable Energy Target, enacted through the Act and the Regulations

MWh
Megawatt-hour—a measure of electricity generation. One thousand kilowatt-hours

ORER
The Office of the Renewable Energy Regulator

Nominated person
A nominated person can apply for accreditation of a power station under the Act. The nominated person can be the owner, operator or major stakeholder of the power station.

REC
Renewable energy certificate is an electronic certificate that may be created, on the IBRS, by eligible parties for each megawatt-hour of eligible renewable electricity generated or deemed to have generated. RECs may be traded separately from the physical electricity in a REC market

Registered person
A person registered under Section 11 of the Act and listed in the register of registered persons. Only a registered person is able to create RECs

Registration of RECs
The change in status required for a REC to be traded and/or surrendered against a liability, which results from providing sufficient information to support the creation of RECs for validation and payment of a specified fee

Regulator
The Renewable Energy Regulator appointed under section 143 of the Act to oversee the achievement of the MRET

RESC
Renewable energy shortfall charge

RESS
Renewable energy shortfall statement

SGU
A small generation unit is a device that generates electricity using either hydro, solar or wind energy and can be a deemed unit under the Regulations

SWH
A solar water heater is a device that heats water from solar energy and can only be a deemed unit under the Regulations

The Act
The *Renewable Energy (Electricity) Act 2000*

The Charge Act
The *Renewable Energy (Electricity) (Charge) Act 2000*

The Regulations
The *Renewable Energy (Electricity) Regulations 2001*

Opening Statement
2006 Annual Report

The sixth year of operation of the *Renewable Energy (Electricity) Act 2000* (the Act) has been notable for several reasons. Firstly the new renewable energy certificate (REC) registry went live in June, secondly the amendments to the Act came into force in September and finally over 20,000,000 RECs have been created from the $3.5 billion of renewable energy investment that has occurred to date.

The new registry came into operation in early June after an extensive development and testing period by not only its developers and the Office of the Renewable Energy Regulator (ORER) but also by several external users. The old registry had run well for the previous five years and it was with some trepidation that the switch over to the new registry occurred. Those familiar with IT matters would appreciate the potential hazards of data migration from one software system to another. In this case it was further compounded by the real time nature of both sets of software essentially making this a one way transition with very limited opportunity to revert back to the old software should any problems occur.

The software developers are to be congratulated on recognising these hazards and achieving a successful design and test program such that a virtually seamless transition occurred when the new software went live. A job that was well done and its success hinged on not only the software but also the thoroughness of the unsung test crew including those external users who dedicated time to assist at crucial test periods.

On 11 September the new amendments to the Act came into force. They were passed through Parliament in June and were widely anticipated by the industry. They provided administrative amendments that had originally been part of an earlier Amendment Act and combined these with the adopted recommendations of the Tambling Report. The amendments are improvements to the efficiency and effectiveness of the original Act and include:

- setting time-limits for the creation of RECs
- providing the opportunity to voluntarily surrender RECs
- allowing for the publication of data on baselines
- clarifying the definitions of Eligible Renewable Energy Sources
- providing increased opportunities for bioenergy
- clarifying the provisions for small deemed certificate systems such as solar water heaters (SWHs) and small generation units (SGUs)
- allowing claims for all complete SWHs plus numerous other administrative changes.

ORER has been working actively to fill in the detailed procedures and processes to enable all of these amendments to be administered either automatically through the registry or manually as appropriate. Users will have already noted progressive amendments to the software to automate some of these processes, and, we expect there will be more amendments to the software over the coming year as detailed Regulations matching the changes to the Act are introduced to Parliament.

Meanwhile the renewable energy industry has been steadily and progressively investing in equipment to generate RECs for trading in the market and late in December 2006 the 20,000,000th REC was created since the measure commenced operation in 2001. It has been estimated that around $3.5 billion of investment has occurred and the generating capability of the system is of the order of 6,400,000 MWh of eligible renewable energy per year. This is

equivalent to the residential electricity consumption of a city of around 2.5 million people or Adelaide and Perth combined. As a further indicator the additional renewable energy power percentage was set for Australia as 2.7% for 2007 with a target of 5,600,000 MWh.

In 2007 we look forward to another active year working with you to identify and install new mechanisms to further improve the efficiency and effectiveness of the administration of the legislation.

Renewable Energy Regulator

Chapter One
Introduction

Background

The Australian Government's Mandatory Renewable Energy Target (MRET) has been introduced to encourage the additional generation of electricity from renewable energy sources and achieve reductions in greenhouse gas emissions. The MRET legislation sets the framework for both the supply and demand of RECs via a REC market.

The MRET places a legal liability on wholesale purchasers of electricity, defined as liable parties under the *Renewable Energy Electricity Act 2000* (the Act), to proportionately contribute towards the generation of an additional 9,500 GWh of renewable electricity per year by 2010.

The demand for RECs is generated by liable parties that acquire electricity directly from generators or from the wholesale electricity market. The demand for RECs, by liable parties, is responsible for contributing towards increasing the amount of renewable electricity generation.

Eligible parties supply RECs to the market. Eligible parties include nominated persons, agents or individuals who can create RECs for eligible renewable electricity generated above the accredited renewable energy power station's baseline or deemed units. RECs that become registered are a tradable commodity in the REC market.

The Act requires the Regulator to give the Minister a report on the working of the Act during the year, for presentation to Parliament. This report is provided to meet that requirement.

Legislative framework

The Act came into force on 18 January 2001, after passage through Parliament on 8 December 2000.

Section 3 of the Act sets out three main objectives:

- to encourage the additional generation of electricity from renewable sources;
- to reduce emissions of greenhouse gases; and
- to ensure that renewable energy sources are ecologically sustainable.

The main provisions of the Act, which established the market for RECs, came into effect on 1 April 2001. The Act is supported by the *Renewable Energy (Electricity) (Charge) Act 2000* (the Charge Act), which sets the renewable energy shortfall charge (RESC), payable where RECs are not surrendered. The RESC is currently $40 per REC not surrendered to the ORER.

The Act is also supported by the *Renewable Energy (Electricity) Regulations 2001* (the Regulations), which provide more detailed rules on a number of issues, including additional eligibility criteria for renewable energy sources, criteria for accreditation of power stations, and deemed REC amounts for SWHs and SGUs. In combination, the Act, the Charge Act and the Regulations, set the framework for the implementation of the Australian Government's MRET.

The Charge Act came into force, and was subsequently amended, in 2000. The Regulations came into force on 6 February 2001, and have subsequently been amended sixteen times, with new amendments expected each year. The amendments to the Regulations are predominantly due to issues relating to SWHs and SGUs, including the inclusion of new eligible SWH models, and to set the renewable power percentages, allowing liable parties to calculate their REC liability.

Administration

The role of the Regulator and the ORER are established under Part 14 of the Act. The key role of the ORER is to assist the Regulator in performing the Regulator's functions (section 150 of the Act). The Regulator and the ORER constitute a Statutory Agency for the purposes of the *Public Service Act 1999.*

The first Regulator was appointed on 12 February 2001 by the then Minister for the Environment and Heritage, Senator the Hon Robert Hill. Mr David Rossiter accepted this role, and has led the ORER for a period of 5 years. At the end of this term the then Minister for the Environment and Heritage, Senator the Hon Ian Campbell, reappointed Mr Rossiter for a further 5 year period.

The main roles of the Regulator are:

- **Maintaining a register of registered persons, accredited power stations, renewable energy certificates and applications for accredited power station by electronic means**

  Under section 135 of the Act the Regulator must maintain a register of registered persons, accredited power stations, RECs and applications for accredited power station. These registers are maintained and are accessible through the Internet Based Register System (IBRS).

  Under the Act certain information from these registers is required to be publicly available on the IBRS.

- **Registration of registered persons**

  Individuals and companies must be registered before they can seek accreditation of renewable energy power stations through nominated persons or create RECs for eligible deemed units through agents or individuals. Each registered entity is allocated a unique registration number, which is entered onto the IBRS of registered persons.

- **Accreditation of eligible renewable energy power stations**

  Renewable energy power stations must be accredited to participate in the MRET measure. Nominated persons of accredited renewable energy power stations are eligible to create RECs in respect of the eligible generation above the baseline. The accreditation process includes:

  - verification that the renewable energy power station meets eligibility criteria as specified in the legislation;
  - verification that a renewable energy power station is using eligible renewable energy sources;
  - establishment of an annual baseline (either zero for new renewable energy power stations or non-zero for pre-existing renewable energy power stations);
  - confirmation of a methodology to calculate eligible generation for REC creation; and
  - each renewable energy power station is allocated a unique accreditation code if it is accredited.

- **Registration of renewable energy certificates**

  RECs are created by registered persons. There are three types of registered persons that can create RECs:

  1. nominated persons who are registered for accredited renewable energy power stations are eligible to create one REC for each megawatt-hour (MWh) of eligible renewable electricity generated if the renewable energy power station generates electricity above its baseline;
  2. agents are eligible to create RECs from deemed units that have been assigned to them by owners of the deemed units; or
  3. individual owners of deemed units are eligible to create RECs for their deemed unit installations.

RECs created by registered persons are checked for accuracy and if appropriate are registered by the ORER. Registered RECs can be transferred to other persons or surrendered to the ORER to discharge a liable party's liability. All of these transactions are electronic via the IBRS. There is an 8 cent fee payment specified for each REC registered and surrendered.

In accordance with the Act, all REC transactions are recorded in the publicly accessible IBRS.

- **Monitoring and compliance**

  The Regulator is responsible for ensuring compliance and maintaining the integrity of the measure. This involves assessing and overseeing the submission of electricity generation returns (EGR), annual energy acquisition statements (AEAS) and renewable energy shortfall statements (RESS). Eligible parties report their renewable energy generation and REC creation in the EGR. Liable parties that lodge an AEAS or RESS can discharge their liability by surrendering RECs and/or paying a RESC imposed by the legislation. Liable parties that have a shortfall greater than 10 percent of the total liability in a given year are required to pay the RESC. The RESC equals $40 for each REC shortfall.

  The ORER assists the Regulator in:

  - overseeing the registration of valid RECs;
  - imposing any penalties for non-compliance with the provisions of the legislation;
  - allowing liable parties to redeem any RESC, if shortfalls are made up within three years of the shortfall year;
  - ensuring the integrity of the measure by undertaking audits of participants including eligible and liable parties;
  - maintaining publicly available registers; and
  - providing industry and other stakeholders with approriate advice about the measure.

The ORER was established to administer the Act on 12 February 2001, and became a prescribed agency under the *Financial Management and Accountability Act 1997* from 1 July 2003. Consequently the ORER now also publishes a separate financial year annual report, outlining activity over the financial year from 1 July to 30 June each year.

Chapter Two
Overview of 2006

The Act operates on a calendar year basis. This report focuses on the operation of the Act between 1 January and 31 December 2006. In some areas, previous year's data is provided for comparison purposes.

Liable and eligible parties are required to report their electricity acquisitions and generation for each calendar year, by 14 February of the following year by lodging annual statements. The surrender of RECs against 2006 liabilities, or continued REC creation in 2007 for generation that occurred in 2001 – 2006, will be reported in the 2007 annual report as these transactions have taken place in the 2007 calendar year.

The Act establishes a process for participating in the MRET. Firstly a person must apply to become a registered person under the Act. If registration is successful, a registered person that is the nominated person for a renewable energy power station may seek accreditation of a renewable energy power station by applying to the Regulator. RECs can be created for eligible renewable electricity generation from accredited renewable energy power stations. Registered RECs can be traded between parties in the IBRS. Finally, through the surrender of RECs by liable parties, RECs are marked as "invalid due to surrender" in the IBRS.

The ORER is therefore involved in a number of key tasks:

- registration of persons;
- accreditation of power stations;
- assessing the validity of created RECs for registration;
- evaluating compliance by liable parties through the acceptance of RECs offered for surrender to acquit liabilities; and
- reviewing decisions once requests to review decisions have been made by the applicable person.

Registration of persons

During 2006, the ORER processed 31 applications to be a registered person. The registrations covered a range of stakeholders, including individuals and companies seeking to claim RECs for power stations or deemed units. The Act requires the Regulator to maintain a register of registered persons by electronic means.

By 31 December 2006, the total number of registered persons since commencement of the scheme reached 369.

Accreditation of power stations

The Regulator is required to maintain, by electronic means, a register of applications for accreditation of renewable energy power stations.

In 2006, the ORER received 19 new applications for accreditation of renewable energy power stations. There were 21 applications received prior to 31 December 2005 to be processed in 2006. Of the 40 applications to be processed in 2006, 12 were accredited and 1 was disapproved by 31 December 2006. The remaining 27 applications require information from the applicants or third party approvals to be provided to the ORER prior to becoming accredited renewable energy power stations.

Of the 12 renewable energy power stations accredited in 2006, a broad range of eligible renewable energy sources were approved for use, as detailed in the table below.

Number of Renewable Energy Power Stations Accredited in 2006

Renewable Energy Source	Accredited in 2006
Hydro	1
Landfill Gas	6
Solar	2
Wind	2
Wood Waste	1

In 2006, no accredited power stations were suspended under section 30E of the Act for not complying with section 20 of the Act – lodging an EGR. In 2006 there were three power stations 1 hydro, 1 landfill gas and 1 photovoltaic that were marked as "De-Accredited" in the IBRS after they withdrew from the MRET.

The table below shows the number of power stations with different renewable energy sources accredited by the ORER by the end of 2005 and 2006.

Comparative Number of Accredited Renewable Energy Power Stations*

Renewable Energy Source	Accredited by 31 Dec 2005	Accredited by 31 Dec 2006
Agricultural Waste	1	1
Bagasse	25	25
Bagasse, Wood Waste	2	2
Biomass-Based Components of MSW	1	1
Black Liquor	1	1
Black Liquor, Wood Waste, Energy Crops	1	1
Food Waste	3	3
Hydro	77	77
Landfill Gas	37	42
Sewage Gas and Biomass-Based Components of Sewage	9	9
Solar	30	31
Waste from Processing of Agricultural Products	1	1
Wind	28	30
Wind, Solar	2	2
Wood Waste	4	5
Wood Waste, Biomass-Based Components of MSW	4	4
Wood Waste, Biomass-Based Components of MSW, Waste from Processing of Agricultural Products	2	2
Grand Total	**228**	**237**

** Section 17 of the Act listing renewable energy sources was amended. In the table above, new renewable energy source names are listed.*

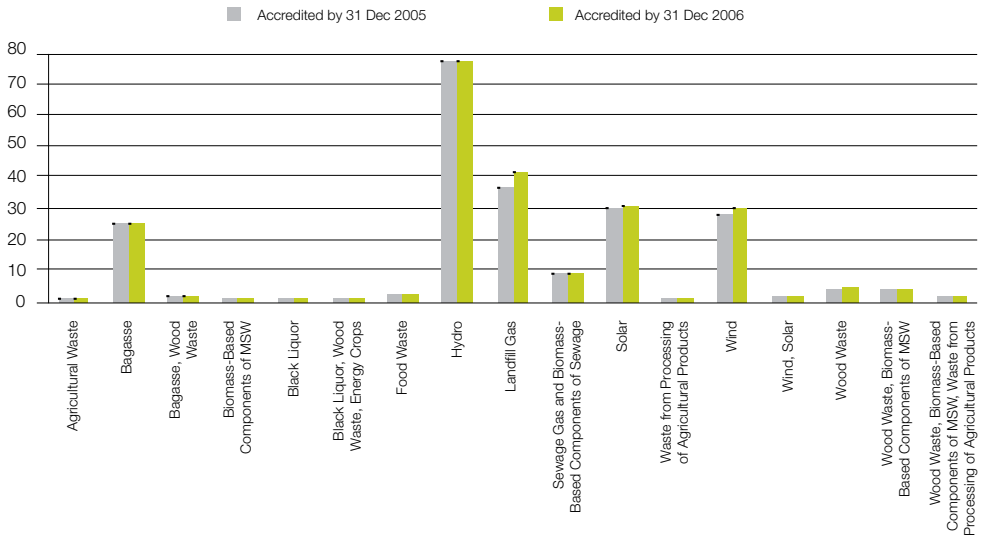
The table below shows the number of accredited power stations by renewable energy sources and by State/Territory at the end of 2006.

Number of Accredited Renewable Energy Power Stations by State as at 31 December 2006*

Renewable Energy Source	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	Total
Agricultural Waste							1		**1**
Bagasse		2		22				1	**25**
Bagasse, Wood Waste		1		1					**2**
Biomass-Based Components of MSW		1							**1**
Black Liquor							1		**1**
Black Liquor, Wood Waste, Energy Crops		1							**1**
Food Waste		1	1					1	**3**
Hydro	1	25		8		28	12	3	**77**
Landfill Gas	2	6	1	9	4	2	9	9	**42**
Sewage Gas and Biomass-Based Components of Sewage		2		4		1	1	1	**9**
Solar	1	11	5	4	2		4	4	**31**
Waste from Processing of Agricultural Products				1					**1**
Wind		4		2	6	3	6	9	**30**
Wind, Solar				1			1		**2**
Wood Waste				2	1	1		1	**5**
Wood Waste, Biomass-Based Components of MSW		4							**4**
Wood Waste, Biomass-Based Components of MSW, Waste from Processing of Agricultural Products		1					1		**2**
Grand Total	**4**	**59**	**7**	**54**	**13**	**35**	**36**	**29**	**237**

** Section 17 of the Act listing renewable energy sources was amended. In the table above, new renewable energy source names are listed.*

Number of Accredited Power Stations by Renewable Energy Source*



** Section 17 of the Act listing renewable energy sources was amended. In the table above, new renewable energy source names are listed.*

Assessing the validity of created renewable energy certificates

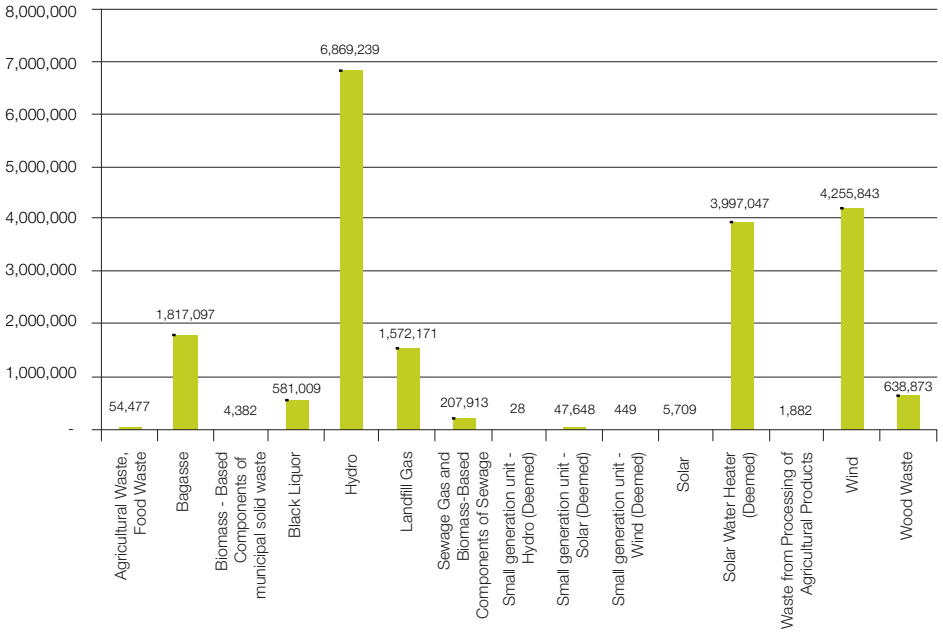
A total of 21,359,038 RECs had been created in the IBRS as at 31 December 2006. Of these, 5,609,931 RECs were created in the 1 January 2006 to 31 December 2006 period. In accordance with the legislation only registered RECs created in 2001 – 2005 could be used to acquit a liable party's 2006 REC liability.

As at 31 December 2006, there were 10,775,586 RECs that were registered, 204,071 RECs pending registration, and 9,074,110 RECs that had been surrendered to the ORER against the 2001 – 2005 liabilities. A total of 1,305,271 RECs had been marked invalid due to audit by the ORER.

A wide range of eligible renewable energy sources were used to create RECs in 2006. Not all accredited power stations, agents or individuals created RECs for their eligible electricity generated or deemed units in 2001 – 2006.

Under the *Renewable Energy (Electricity) Amendment Act 2006,* that came into force on 11 September 2006, accredited renewable energy power stations are required to create RECs for eligible renewable electricity generated above the renewable energy power station's baseline and between 1 April 2001 – 31 December 2006 by 31 December 2007. Accredited renewable energy power stations are now required to create RECs for eligible renewable electricity generated in a given calendar year by 31 December in the following year. If accredited renewable energy power stations do not create RECs within the allowed timeframe they are no longer eligible to create RECs for the eligible renewable electricity generated.

RECs created by 31 December 2006 by Renewable Energy Sources*



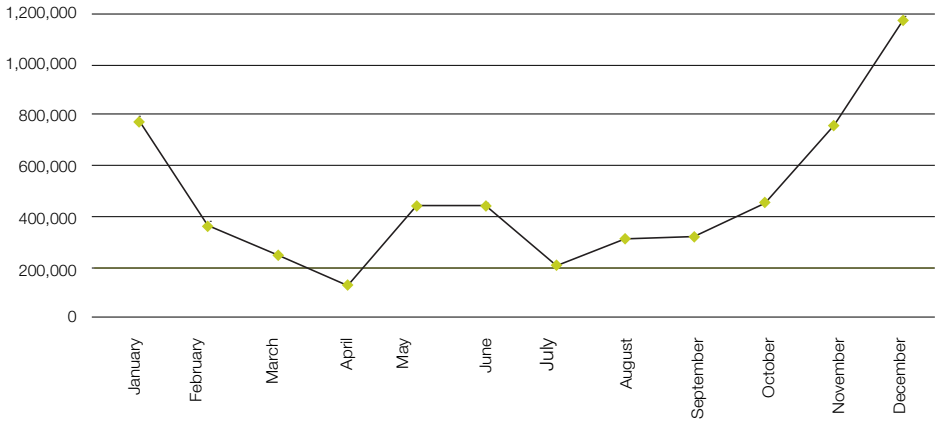
** Section 17 of the Act listing renewable energy sources was amended. In the table above, new renewable energy source names are listed.*

The busiest month for REC creation in 2006 was December as in previous years. This reflects a number of factors:

- accredited power stations exceeding their baselines in the November – December period, and only at that time being eligible to create RECs; and
- delays in finalising electricity meter readings.

High REC creation activity also occurred in January and November 2006.

RECs created in 2006 by month



As was the case in 2001 – 2005, the ORER recommended that companies create the majority of their RECs by 14 December 2006, to ensure that the RECs could be validated through an audit process early in 2007 and be available for trading for liability compliance purposes. In 2006 there was an excellent response from registered persons to create RECs by 14 December 2006. As a result, the vast majority of these RECs were registered prior to 14 January 2007.

As in previous years, the ORER checked nearly 100 percent of the claims for RECs.

The REC Market

The MRET legislation sets the framework for both the supply and demand of RECs via a REC market.

The demand for RECs is generated by liable parties that acquire electricity directly from generators or from the wholesale electricity market.

Eligible parties supply RECs to the market. Eligible parties include nominated persons, agents or individuals who can create RECs for eligible renewable electricity generated above the accredited renewable energy power station's baseline or deemed units.

Registered RECs are a tradable commodity in the REC market. The Act allows for RECs to be transferred between parties listed in the IBRS. Under section 28 of the Act all transfers of RECs between parties that take place on the IBRS are to be reported to the Regulator. REC transfer transactions are reported automatically to the Regulator in the IBRS. In 2006 there were 1,338 either confirmed or still pending transactions, representing a total of 11,165,781 RECs, up from 1,010 confirmed transactions representing 6,935,314 RECs in 2005.

Requests to review decisions

The Act requires the Regulator to make a variety of decisions relating to the administration of the measure.

If a person is not satisfied with a decision that has been made by the Regulator, the person can request a review by the Regulator under section 66 of the Act. The Regulator will appoint an ORER officer who was not involved in the original decision to assist in the review.

Under section 66 of the Act the request for review of the decision must be in writing stating fully, and in detail, the grounds for the request. The request for review must be lodged with the Regulator within 60 days of the date of the original decision.

If the Regulator does not provide a written decision within 60 days of receiving the request then the Regulator is taken to have confirmed the original decision.

After an internal review decision has been provided and the person is still not satisfied with the decision, the person can apply to the Administrative Appeals Tribunal (AAT) for a review of the decision.

A list of decisions that can be reviewed by the Regulator, under section 66 of the Act, upon receiving a request to review the decision:

- **Approve or refuse an application for registration as a registered person**

  The Regulator may register a person as specified under section 11 of the Act. In 2006 no requests to review a decision under this category were lodged with the ORER.

- **Approve or refuse provisional accreditation of renewable energy power station application**

  The Regulator may provisionally accredit a renewable energy power station as specified under section 12B. In 2006 no applications were received and no requests to review a decision under this category were lodged with the ORER.

- **Determining certain matters relating to an application for accreditation of a renewable energy power station**

  Under section 14 the Regulator determines whether information provided in the application for accreditation of a renewable energy power station is sufficient to consider the application and may request further information. In 2006 no applications and no requests to review a decision under this category were lodged with the ORER.

- **Approve or refuse accreditation of renewable energy power station application**

  The Regulator may accredit a renewable energy power station as specified under section 15 of the Act. In 2006, one company submitted a request for review in respect of an accreditation decision. In the one case for review, the company submitted its request within the allowable timeframe, in accordance with section 66 of the Act. The review was finalised in 2006. The appellant then lodged a request for review of the power station accreditation decision before the AAT. This case is yet to be heard by the AAT.

- **Amending electricity generation returns**

  Under section 20A the regulator may choose to amend an electricity generation return for accredited renewable energy power stations. In 2006 no requests to review a decision relating to amending electricity generation returns was lodged with the ORER.

- **Approve or refuse to register RECs**

  The Regulator may refuse to register a REC under section 26 of the Act. In 2006 no requests to review a decision under this category were lodged with the ORER.

- **Suspending a registered person**

  Under section 30 and 30A of the Act the Regulator may suspend the registration of a person for a period of time or indefinitely. In 2006 no registered persons were suspended and no requests to review a decision under this category were lodged with the ORER.

- **Approve or refuse to a nominated person for an accredited renewable energy power station**

  The Regulator may refuse to change a nominated person for an accredited renewable energy power station as specified under section 30B of the Act. In 2006 no requests to review a decision under this category were lodged with the ORER.

- **Approve or refuse to vary what constitutes components of an accredited renewable energy power station**

  The Regulator may refuse to vary components of an accredited renewable energy power station for the purposes of this measure as specified under section 30C (1) of the Act. In 2006 no applications were made and no requests to review a decision under this category were lodged with the ORER.

- **Suspending the accreditation of a renewable energy power station**

  The Regulator may suspend the accreditation of a renewable energy power station for the purposes of this measure as specified under section 30D or 30E of the Act. In 2006 no accredited renewable energy power stations were suspended and no requests to review a decision under this category were lodged with the ORER.

- **Requesting to vary a accredited renewable energy power station's baseline**

  The Regulator may increase or decrease a renewable energy power station's baseline for the purposes of this measure as specified under section 30F of the Act. In 2006 no requests to vary a renewable energy power station's baseline were received and no requests to review a decision under this category were lodged with the ORER.

- **Amending annual energy acquisition statements**

  Under section 45A the regulator may choose to amend an annual energy acquisition statement for wholesale purchases of electricity relating to liable parties. In 2006 no requests to review a decision under this category were lodged with the ORER.

- **Assessing a penalty charge where an arrangement to avoid a renewable energy shortfall charge occurred**

  Under section 102 the regulator may assess and enforce a penalty charge where a liable party has made an arrangement to avoid a renewable energy shortfall charge. In 2006 no such assessments were made and no requests to review a decision under this category were lodged with the ORER.

Compliance and assessment of annual statements and returns

The 2006 compliance year commenced on 1 January 2006 and ended on 31 December 2006. The due date for the lodgement of the EGR, AEAS and RESS for the 2006 compliance year was 14 February 2007. Comprehensive details regarding the 2006 compliance period will be provided in the 2007 Annual Report.

The 2005 compliance year commenced on 1 January 2005 and ended on 31 December 2005. The due date for the lodgement of the EGR, AEAS and RESS for the 2005 compliance year was 14 February 2006.

- **AEAS and RESS compliance and assessment**

  By 31 December 2006, a total of 9,074,110 RECs were accepted for surrender against the 2001 – 2005 and future liabilities. RECs that have been accepted for surrender against future liabilities are carried forward surplus RECs. The carried forward surplus RECs can be used by relevant liable parties to discharge their liability in future compliance years.

  For 2005 the majority of the AEAS for the 2005 compliance period were submitted to the ORER by 14 February 2006, the due date. A total of 69 parties were identified and where required to surrender RECs. The ORER completed one default assessment on behalf of a company that failed to submit an AEAS.

  For the 2005 compliance year, only 6 out of the 69 liable parties had individual shortfalls. The 2005 shortfall was 8,486 RECs. For the 2005 compliance year more than 99.7 per cent of the 2005 liability was met by the surrender of RECs.

  In addition to addressing 2005 liabilities, liable parties are permitted by the Act to provide RECs to redeem any outstanding shortfall charges in the immediate three years following the shortfall year. During the 2005 compliance process REC shortfalls were reviewed for the 2002 – 2004.

  By 31 December 2006, the number of liable parties with a REC shortfall for the 2001 – 2004 compliance years went down to 4. At the end of 2006, the 2001 – 2004 total REC shortfall was down to 443 RECs.

REC Surrender summary for the 2005 compliance year

Total RECs surrendered as at 31 December 2006	**9,074,110**
Total RECs surrendered against 2005 liability	3,298,348
Total RECs surrendered against 2001 – 2004 liability	5,727,709
Total RECs surrendered against future liability	48,053
2005 Liability acquitted by RECs Surrender (%)	**99.7**
Parties with a 2005 liability	**69**
Parties with a 2005 REC shortfall	6
Total REC shortfall for 2005 at 31 December 2006	**8,486**
Total REC shortfall for 2001 – 2004 at 31 December 2006	443

Note: Not all shortfalls resulted in the payment of the penalty of $40/MWh, as shortfalls within 10% of the total requirement are carried forward to next year's REC liability.

- **EGR compliance and assessment**

  Registered persons that:

  - generated electricity from accredited renewable energy power stations during the 2005 compliance year (or generation year) are required to lodge an EGR by 14 February 2006 for each accredited renewable energy power station; and
  - created RECs for eligible deemed unit installations during the 2005 compliance year (or generation year) are required to lodge an EGR by 14 February 2006.

  By 31 December 2006 a total of 261 EGRs were received for the 2005 generation year. Assessment of the EGRs continued throughout the 2006 calendar year until all EGRs were assessed and confirmation of the assessment was provided to the relevant company contact.

In assessing the EGR for the 2001 – 2005 generation years the number of RECs that remain uncreated for eligible generation from accredited renewable energy power stations are provided in the table below, that shows the:

- amount of renewable electricity generated or deemed to have been generated for REC eligibility (REC eligibility);
- number of RECs that have been created and validated through a registration process (registered RECs); and
- amount of RECs that remain uncreated for eligible generation from accredited renewable energy power stations (RECs remaining).

Comparing REC Eligibility, and Registered RECs by generation years to view RECs Remaining

Category	2001 [2] '000	2002 '000	2003 '000	2004 '000	2005 '000
REC Eligibility [1]					
Deemed Units	216	528	712	822	1,010
Renewable Energy Power Stations	1,448	2,253	3,644	2,580	3,811
Total	**1,664**	**2,781**	**4,356**	**3,402**	**4,821**
Registered RECs					
Deemed Units	216	528	712	822	1,010
Renewable Energy Power Stations	1,436	2,251	3,630	2,579	3,796
Total	**1,652**	**2,779**	**4,342**	**3,401**	**4,806**
RECs Remaining					
Deemed Units [3]					
Power Stations [4]	12	2	14	1	15

1. One MWh of renewable electricity generated or deemed to have been generated equals one REC
2. The measure commenced on 1 April 2001. The first compliance period being 2001 was 9 months. All other compliance years are full calendar years.
3. There are no remaining RECs for SWHs as the time allowed to create RECs for these deemed units has expired. There still could be RECs remaining for SGUs if certain eligibility requirements are met, however, there is no sufficient data available to report the number of RECs remaining.
4. The number of RECs remaining can change if EGRs are amended on request by the registered person or if additional information is received by the ORER. For example at the conclusion of an audit.

- **Field and desk audits under section 100 to 115 of the Act**

  Any information provided to the Regulator under the Act can be audited including information relating to accreditation, deemed unit installations, eligible generation and electricity acquisitions.

  Liability compliance audits seek to verify the information provided in the AEAS or RESS.

  Eligibility compliance audits seek to verify information provided in the EGR.

  Audits not only help liable and eligible parties understand the application of the MRET to their circumstances, but also provides a feed back to the ORER on areas where systems might need some improvement.

  The ORER has developed a risk assessment methodology to select parties to be audited. This methodology evaluates potential risks against various factors and the risk rating is used to select the parties for audit.

  In 2006 the ORER initiated three field audits. All three field audits related to the 2005 compliance year liability. The audits were performed to substantiate information provided to the ORER, and to determine compliance with the Act.

Chapter Three
Other Activities

Amending the Act

The ORER continues to work with the Australian Greenhouse Office, which has retained policy responsibility for MRET, to identify issues and remedies in respect of a variety of administrative matters related to the MRET.

In 2003 a review to assess the efficiency and effectiveness of the MRET, and its implementation and operation of the Act, was conducted by a panel independent of the Government. In 2006 as part of the Australian Government's response to the review, the Australian Greenhouse Office introduced an Amendment Bill into the parliament. The *Renewable Energy (Electricity) Amendment Act 2006* (the Amendment Act) was passed by the parliament on 22 June 2006 and received Royal Accent on 30 June 2006. The Amendment Act was complied into the Act and came into force on 11 September 2006.

Key changes arising from the Amendment Act include:

- persons who own registered RECs and wish to reduce the number of RECs available in the REC market can surrender RECs to the ORER. This surrender of RECs is a voluntary act by persons who do not have a liability under the Act;
- amending the list of renewable energy sources;
- allowing registered persons to seek provisional accreditation for renewable energy power stations;
- making accredited renewable energy power station baselines publicly available;
- allowing RECs to be created from eligible renewable electricity generated from accredited renewable energy power stations within specified timeframes; and
- providing provisions to simplify the inclusion of compliant SWH models under the measure and simplify other administrative issues.

Amending the Regulations

The Regulations, which were first made on 6 February 2001 and were amended five times during 2006. This was in addition to the eleven amendments made up until 31 December 2005. The Act, before the Amendment Act, required that proposed regulation amendments be made publicly available for a period of not less than 30 days prior to being made. In 2006 this consultation process affected Round Twelve and Thirteen only.

Rounds Fourteen, Fifteen and Sixteen were conducted under a revised regulation amendment process which means that the amendments were not required to be made publicly available for a period of not less than 30 days prior to being made. This is also the case under the *Legislative Instruments Act 2003* which requires proposed regulation amendments that are of a minor or machinery nature and that do not substantially alter existing arrangements to be removed from a public consultation process.

Details of the amendment rounds that commenced in 2006 are provided in the table below.

The amendments to the Regulations were administrative in nature and related to:

- clarification of eligibility requirements for SWHs, including additional SWH models, revision of SWH models listed, and revising SWH definitions (rounds twelve and fourteen);

Regulation Amendments in 2006

Activity	Round Twelve	Round Thirteen	Round Fourteen	Round Fifteen*	Round Sixteen
Publication consultation opened	28 Jan 2006	7 Nov 2005	NLA	NLA	NLA
Public consultation closed	27 Feb 2006	7 Dec 2005	NLA	NLA	NLA
Number of submissions received	1	1	NLA	NLA	NLA
Federal Executive Council meeting	1 June 2006	15 Dec 2005	13 Dec 2006	Not available	13 Dec 2006
Amendment regulations registered	7 June 2006	19 Dec 2005	15 Dec 2006	21 Sep 2006	15 Dec 2006
Amendment regulations tabled in the House of Representatives	13 June 2006	7 Feb 2006	6 Feb 2007	9 Oct 2006	6 Feb 2007
Amendment regulations tabled in the Senate	13 June 2006	7 Feb 2006	6 Feb 2007	9 Oct 2006	6 Feb 2007

NLA: No longer applicable
Note: See previous years' Annual Reports for details of rounds one to eleven.
** The Australian Greenhouse Office conducted this amendment round.*

- implementing legislative changes as required due to the amendment of the Act (round fifteen); and
- specifying the renewable power percentage for 2006 (round thirteen)[1] and 2007 (round sixteen).

Launch of the new Internet based registry system

The Act requires the Regulator to maintain four registers by electronic means. IBRS is made available for this purpose and also allows for the online creation, transfer, registration and surrender of RECs. The IBRS has been in operation since 1 April 2001.

A new IBRS was launched on 5 June 2006 at **www.rec-registry.gov.au**, following the awarding of the contract to develop and run the IBRS software through to year 2010 to AusRegistry International Pty Ltd. Two scheduled updates to the software were released in 2006:

- version 1.1 was released on 2 August 2006 to provide enhancements identified prior to launch as being desirable but not essential to the successful operation of the REC Registry; and
- version 1.2 was released on 29 November 2006 primarily to update functions affected by the Amendment Act.

Advice to industry

The ORER placed a number of public notices in 2006 to advise stakeholders of proposed amendments to the Regulations, and to remind stakeholders of the annual compliance requirements.

In addition, a wide range of information is provided through the ORER website, **www.orer.gov.au** to advise the participants of the framework and processes for participating in the MRET. Information is also sent directly to all IBRS users via email on a number of occasions.

[1] The Renewable Power Percentage for 2007 is 2.7%. It was 2.17% for 2006. Previous Renewable Power Percentages that have been set for previous compliance years can be obtained under Regulation 23 of the Regulations.

Working with industry

The ORER has dedicated substantial resources to working with stakeholders to improve their understanding of the legislation and regulations, facilitate involvement in the scheme and provide support throughout the measure.

In 2006, the ORER continued the positive interaction with the participants to ensure all parties were familiar with their obligations and entitlements under the legislation. The ORER continued to provide telephone/email assistance and visited or was visited by, many stakeholders and interested parties. The ORER also presented at several public fora. This extensive contact and feedback enables ORER and participants to refine and develop systems to better align projects with the requirements the Act.

Working with Government agencies

The ORER maintains strong links with the Australian Greenhouse Office. The ORER also liaises with other interested Commonwealth and State Government Departments and Agencies. Some of these include NSW Greenhouse Gas Abatement Scheme, Green Power, Queensland Gas Energy Certificate Scheme and Victorian Renewable Energy Target.

Working with the community

The ORER provides information to a variety of stakeholders, ranging from individuals wishing to claim RECs for solar water heaters, to special purpose interest groups.