



Australian Government

Office of the Renewable Energy Regulator



INCREASING AUSTRALIA'S RENEWABLE ELECTRICITY GENERATION
ANNUAL REPORT 2007

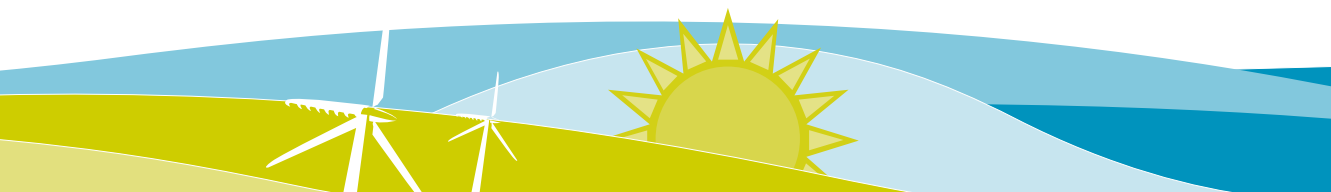


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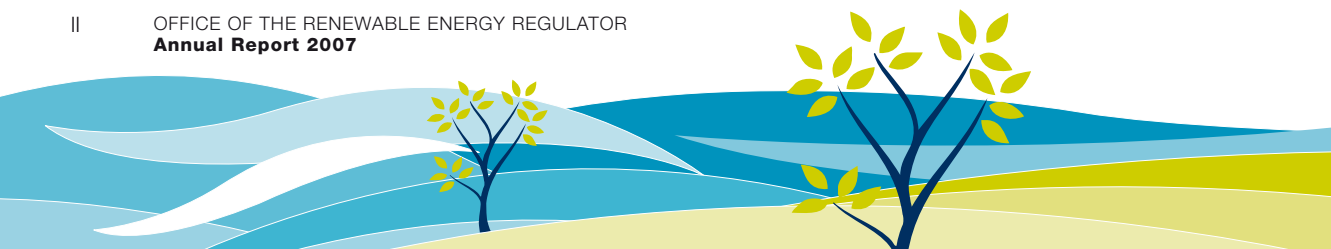
Increasing Australia's renewable electricity generation

Annual Report 2007



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Australian Government
Office of the Renewable Energy Regulator

Senator the Hon Penny Wong
Minister for Climate Change and Water

Dear Minister

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

This 2007 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

A handwritten signature in black ink that reads "David Rossiter".

David Rossiter
Renewable Energy Regulator
May 2008

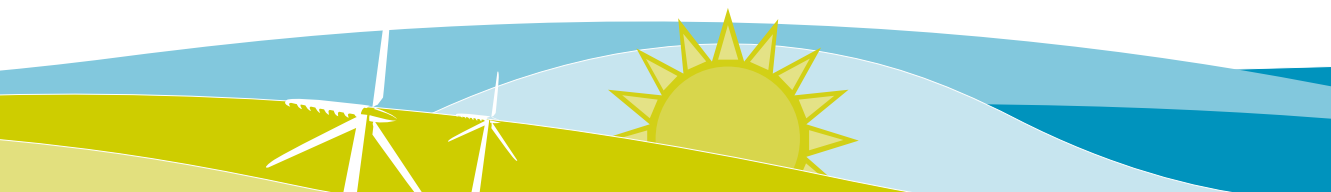
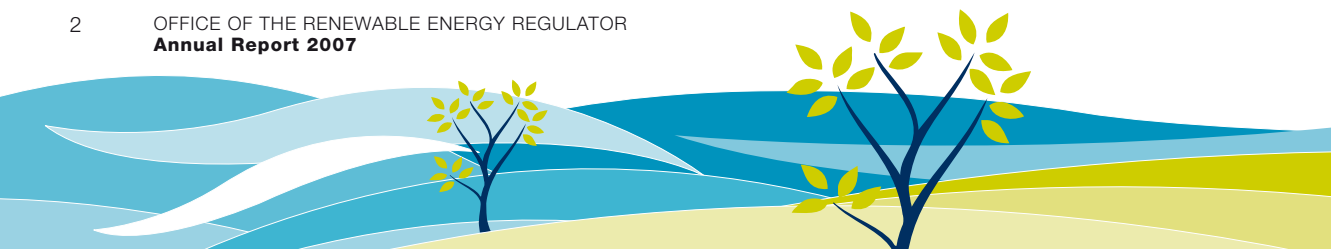


Table of Contents

Opening Statement 2007 Annual Report	3
Chapter 1 Introduction	5
Background	5
Legislative framework	5
Administration	6
Roles of the Regulator	6
Roles of the OREER	7
Chapter 2 Overview of 2007	8
Introduction	8
Registration of persons	9
Accreditation of power stations	9
Assessing the validity of created renewable energy certificates	13
The REC market	15
Requests to review decisions	16
Compliance and assessment of annual statements and returns	17
Chapter 3 Other Activities	21
Amending the Act	21
Amending the Regulations	21
Internet based registry system	22
Advice to industry	22
Working with industry	22
Working with Government agencies	23
Working with community	23
Glossary	24



Opening Statement

2007 ANNUAL REPORT

It has been an eventful year for the environment with carbon emissions trading being confirmed for introduction in 2010, a nearly five fold increase announced in the Government's renewable energy target by 2020 and Australian ratification of the Kyoto Protocol.

Against this background of widening interest in climate change and during its seventh year of operation, the Office of the Renewable Energy Regulator (ORER) also saw an increasing interest in the Government's renewable energy target.

The ORER's year was again busy with a nearly 25 percent increase in the annual target over the previous year and on average around 30,000 renewable energy certificates being validated each working day by the ORER staff. The scheme now has well over 205,000 participants.

To the end of 2007, the ORER has estimated around \$4.5 billion of investment has occurred under the renewable energy target and the generating capability of the system is of the order of 8,300,000 MWh of eligible renewable energy per typical year. This is equivalent to enough energy to supply the residential electricity needs of about 3 million people. The renewable power percentage for 2008 has been set at 3.14 percent additional renewable energy.

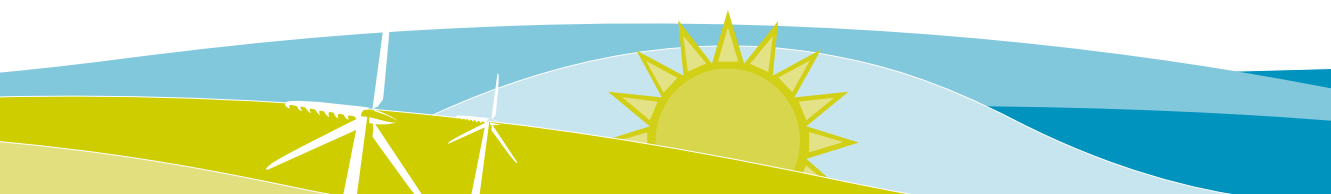
While creation of renewable energy certificates continued to rise in 2007 compared with earlier years, it appears the underlying generation of these certificates only just exceeded the 2007 target of 5.6 million by about 5 percent. The closeness of this latter result is a new phenomenon – never before have supply and demand of certificates been so closely matched.

With the apparent level of generating capability in the market and the associated \$1 billion investment in additional capacity in 2007 it would appear the market should be well supplied with renewable energy certificates in 2008 as these investments realise a full year of renewable energy generation.

In September 2006 the *Renewable Energy (Electricity) Act 2000* was amended and as a result any registered owner of a renewable energy certificate may now surrender that certificate to the Regulator. 'Voluntary surrender' as this feature has come to be called was canvassed initially in the review of the target in 2003 (the Tambling Report) and was introduced primarily as a means of extinguishing the many renewable energy certificates that had built up under GreenPower but it also allows any registered owner to surrender certificates. Previously only parties with a 'mandatory' liability under the scheme had been able to surrender certificates to the Regulator.

In 2007 there was no voluntary surrender of the renewable energy certificates underpinning GreenPower but in early 2008 it is expected these certificates will finally be surrendered to the Regulator for all prior years and as a result around 2 million certificates already held in dedicated and locked GreenPower accounts will be extinguished once and for all.

Meanwhile during 2007 the ORER received several other enquiries from organisations, businesses and individuals who were interested in making voluntary surrenders and by the end of 2007 just over 1500 renewable energy certificates had been surrendered to the Regulator. Their reasons may be varied but the opportunity to help establish their green credentials or to fully or partially off-set their carbon footprint may



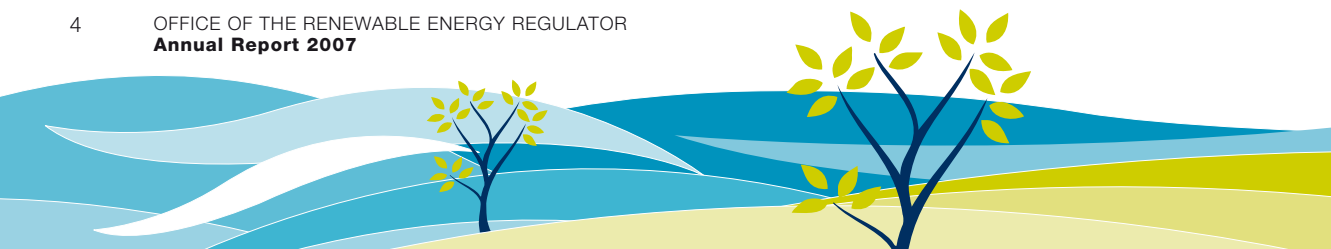
be a factor driving the interest shown in voluntary surrender by these parties without a mandatory liability.

The tightening of the renewable energy certificate market during 2007 has been attributed by market participants to many causal factors including amongst others the drought (which not only effects the production of certificates from hydro power but also from biomass energy), the voluntary surrender of the certificates underpinning GreenPower, the increasing targets and increased hedging by those parties with a mandatory liability under the scheme who may be securing certificates for their future liabilities. Whatever the cause of the perceived reduction in liquidity during 2007, we anticipate that 2008 will be another busy year for renewable energy production in Australia as 2007's new plant and equipment reach its full generating capability, the certificates underpinning GreenPower are extinguished and the target rises again – this time by about 20 percent. As for the effects of the drought, only time will tell.

In 2008 we look forward to working to implement the Government's increased renewable energy target for 2020 of 45,000,000 MWh of additional renewable energy.



Renewable Energy Regulator



Chapter 1

INTRODUCTION

Background

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

The RET 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 mainly 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 for eligible deemed units. RECs that become registered are a tradable commodity in the REC market.

Legislative framework

The Act came into force on 18 January 2001, after passage through Parliament on 8 December 2000. The *Renewable Energy (Electricity) Amendment Act 2006*, which incorporated some of the

recommendations from a review into the implementation and operation of the RET, was compiled into the Act and came into force on 11 September 2006.

Section 3 of the Act sets out three main objectives:

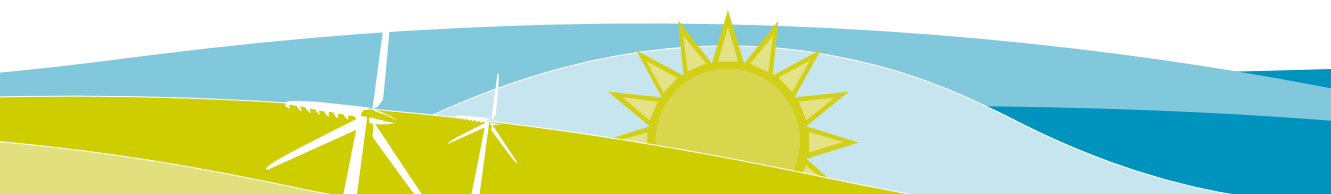
- to encourage the additional generation of electricity from renewable sources;
- to reduce emissions of greenhouse gases; and
- to ensure that renewable energy sources are ecologically sustainable.

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 Regulator. The Charge Act came into force in 2000, and was subsequently amended in 2001.

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 units.

The Regulations came into force on 6 February 2001, and have subsequently been amended nineteen times, with new amendments expected each year. The amendments to the Regulations were predominantly due to issues relating to Solar Water Heaters (SWHs) and Small Generation Units (SGUs), including the inclusion of new eligible SWH models, and to set the renewable power percentage for a given year, allowing liable parties to calculate their REC liability.



In combination, the Act, the Charge Act and the Regulations set the framework for the implementation of the Australian Government's RET.

Administration

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 also publishes a separate financial year annual report, outlining activity over the financial year from 1 July to 30 June each year.

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 led the ORER for an initial 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.

Roles of the Regulator

The main roles of the Regulator are:

Maintaining a register of registered persons, accredited power stations, renewable energy certificates and applications for accredited power stations 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 stations. 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, create RECs above the renewable energy power station's baseline or create RECs for eligible deemed units. Each registered person is allocated a unique registration number, which is accessible from the Register of registered persons.

Accreditation of eligible renewable energy power stations

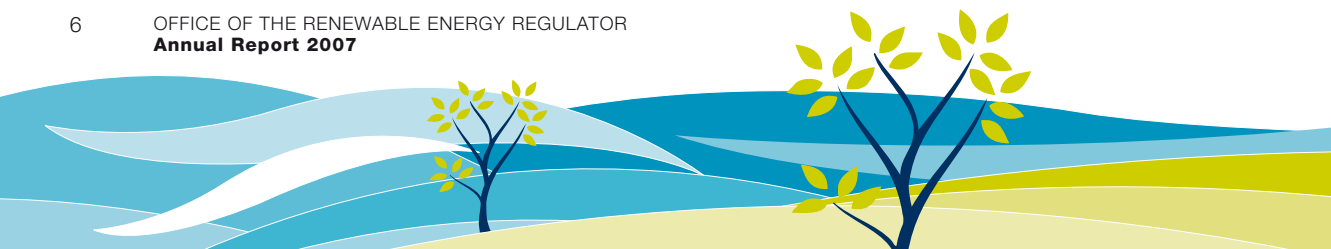
Renewable energy power stations must apply for accreditation in order to participate in the RET. Nominated persons of accredited renewable energy power stations can be eligible to create RECs in respect of the eligible generation above the baseline. The accreditation process includes:

- verification that the renewable energy power station meets eligibility criteria as specified in the legislation;
- verification that a renewable energy power station is using one or more eligible renewable energy sources;
- establishment of an annual baseline. The baseline for new renewable energy power stations is generally zero and for pre-1997 renewable energy power stations is non-zero;
- confirmation of a methodology to calculate eligible generation for REC creation; and
- allocation of a unique accreditation code if the renewable energy power station is accredited.

Registration of renewable energy certificates

RECs can only be created by registered persons. There are three types of registered persons:

- nominated persons for renewable energy power stations



- individual owners of deemed units; and
- agents for deemed units.

RECs created by registered persons are checked for accuracy and either validated or failed by the ORER. For RECs to be registered they must be validated by the ORER and the registered persons must pay an 8 cent registration fee per REC. Registered RECs can be transferred to other persons, voluntarily surrendered under section 28A of the Act or surrendered to discharge a mandatory liability under sections 44 or 95. RECs surrendered to discharge a liability incur an 8 cent fee per REC surrendered.

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

Monitoring and compliance

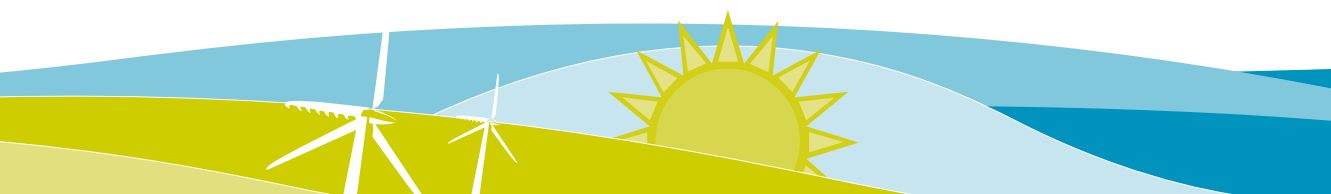
The Regulator is responsible for ensuring compliance and maintaining the integrity of the measure. This involves assessing and overseeing the submission of:

- annual electricity generation returns (EGR). Nominated persons for power stations report their renewable electricity generation above the baseline and REC creation in the EGR;
- annual solar water heater and small generation unit returns (SWH/SGUR). Agents report REC information with respect to the number of deemed units that were entitled to create RECs;
- annual energy acquisition statements (AEAS) and renewable energy shortfall statements (RESS). Liable parties are required to lodge an AEAS or RESS and acquit their liability by surrendering RECs and/or paying a renewable energy shortfall charge (RESC) in accordance with the legislation. Liable parties that have a shortfall less than 10 percent of the total liability in a given year are not required to pay the RESC and are allowed to carry forward the REC shortfall without paying the RESC. The RESC equals \$40 for each REC shortfall.

Roles of the ORER

The ORER assists the Regulator in:

- registration of individuals or companies seeking to become registered persons;
- accreditation of eligible renewable energy power stations;
- overseeing the validation of RECs;
- overseeing the acceptance of RECs offered under section 28A of the Act. The ORER commonly refers to this retirement of RECs as voluntary surrender, where individuals or companies can remove the RECs from the REC market without having a mandatory REC liability under the Act;
- imposing any penalties for non-compliance with the provisions of the legislation;
- allowing liable parties to redeem any RECs, 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 and updating the IBRS, accessible at www.rec-registry.gov.au. This includes releasing software upgrades and maintaining the publicly available registries;
- providing industry and other stakeholders with appropriate advice about the measure; and
- providing information related to RET on the ORER website www.orer.gov.au



Chapter 2

OVERVIEW OF 2007

Introduction

The Act operates on a calendar year basis. This report focuses on the operation of the Act between 1 January and 31 December 2007. In some areas, previous year's data is provided for comparison purposes.

Eligible and liable parties are required to report their electricity generation, deemed unit REC information, and liable electricity acquisitions for each calendar year, by 14 February of the following year by lodging annual returns or statements. The surrender of RECs against 2007 liabilities, or continued REC creation in 2008 for generation that occurred in 2007, will be reported in the 2008 annual report as these transactions have taken place in the 2008 calendar year.

The Act establishes a process for participating in the RET. Firstly a person must apply to become a registered person under the Act. Individuals or companies wishing to become registered persons must first create an account in the IBRS. At this point individuals or companies are only able to own and transfer registered RECs or make voluntary REC surrender offers. If individuals or companies wish to create RECs, a registered person application must be provided to the ORER and a \$20 application fee must be paid. When registration is successfully completed, a registered person may:

- seek accreditation of a renewable energy power station for which they are a nominated person, by applying to the Regulator. If the renewable energy power station is accredited by the Regulator, then RECs can be created for eligible electricity generation above the renewable energy power station's baseline;
- create RECs for their own eligible deemed unit installation; or

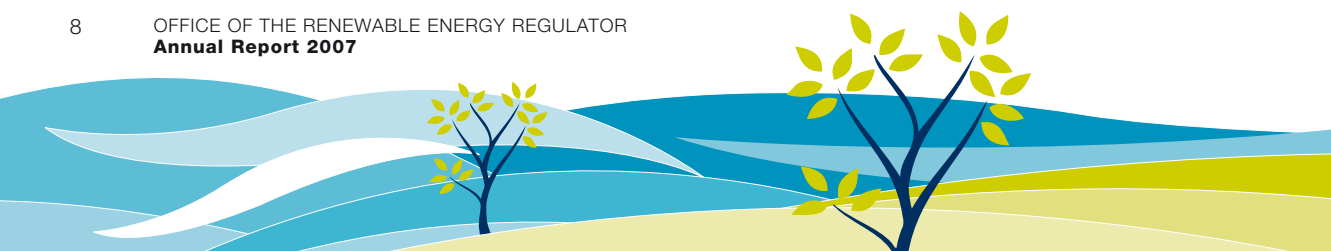
- apply for registration as an agent. If successfully registered, an agent can create RECs on behalf of owners of eligible solar water heater or small generation unit installations who assigned their right to create RECs to the agent.

Finally, registered RECs can be:

- traded between parties who have an account in the IBRS;
- surrendered by liable parties to discharge their liability under the Act. RECs surrendered by liable parties and accepted by the ORER are marked "invalid due to surrender" in the IBRS; or
- surrendered under section 28A for any reason other than a mandatory REC liability. This results in removing RECs from the REC market by making voluntary REC surrender offers in the IBRS. RECs that are voluntary surrendered by individuals or companies and accepted by the ORER are marked "invalid due to voluntary surrender" in the IBRS.

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

- registration of persons;
- accreditation of renewable energy power stations;
- assessing the validity of created RECs for registration;
- evaluating liability compliance by accepting renewable energy shortfall charge or RECs offered for surrender to acquit liabilities;
- accepting voluntary REC surrender offers; and
- reviewing decisions, once requests to review decisions have been made by the applicable person.



Registration of persons

During 2007, the ORER processed 85 applications to be a registered person. The registrations covered a range of individuals and companies seeking to create RECs for renewable energy power stations or deemed units. The Act requires the Regulator to maintain a register of registered persons by electronic means. This register is accessible at www.rec-registry.gov.au

As at December 2007, the total number of registered persons since commencement of the scheme reached 444.

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 2007, the ORER received 16 new applications for accreditation of renewable energy power stations.

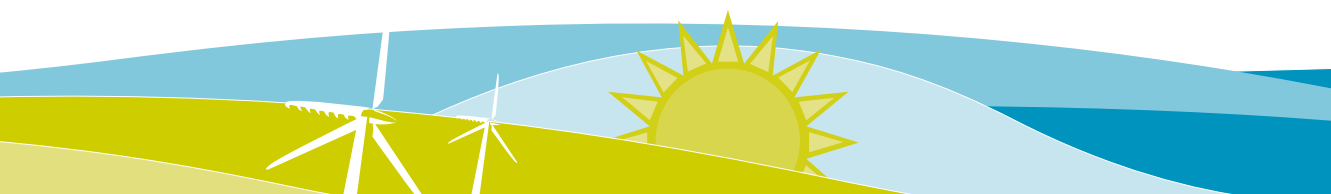
There were 27 applications received prior to 31 December 2006, to be processed in 2007. Of the 43 applications to be processed in 2007, 17 were accredited, with no application being disapproved by 31 December 2007. The remaining 26 applications required additional information from the applicants or third party approvals to be provided to the ORER, prior to the Regulator's decision to approve or refuse the application for accreditation. In 2007 there was 1 Solar / Photovoltaic power station marked as "De-Accredited" in the IBRS after it withdrew from the RET.

Of the 17 renewable energy power stations accredited in 2007, a broad range of eligible renewable energy sources were approved, as detailed in the table below.

Number of Renewable Energy Power Stations Accredited in 2007

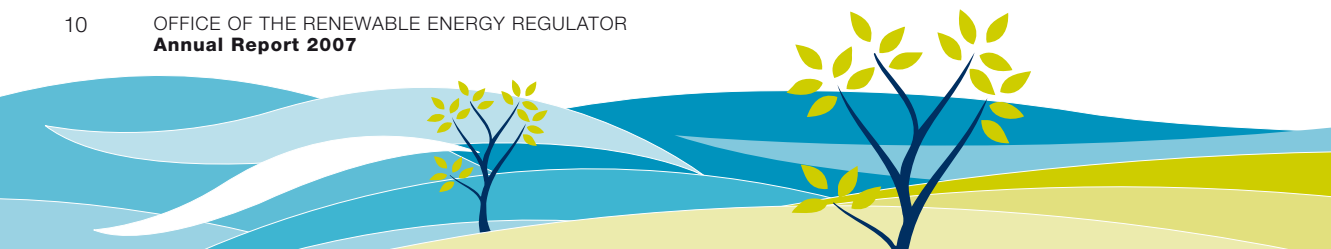
Renewable Energy Source	Accredited in 2007
Agricultural Waste / Food Processing Waste / Food Waste	1
Bagasse / Wood Waste / Biomass-Based Components of Municipal Solid Waste	1
Food Waste	1
Hydro	2
Landfill Gas	4
Sewage Gas and Biomass-Based Components of Sewage	1
Solar	2
Wind	4
Wood Waste	1

In 2007, no accredited power stations were suspended under section 30E of the Act for not complying with section 20 of the Act – lodging an EGR.

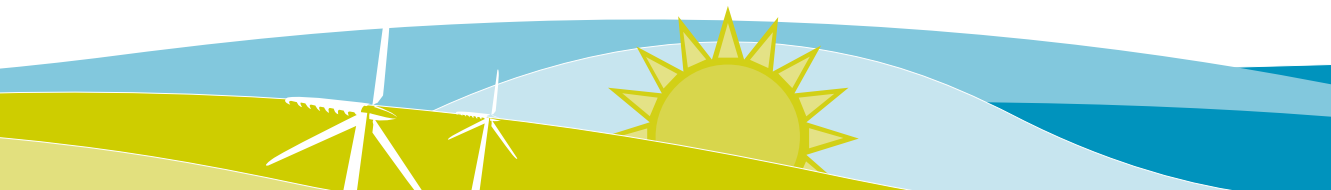
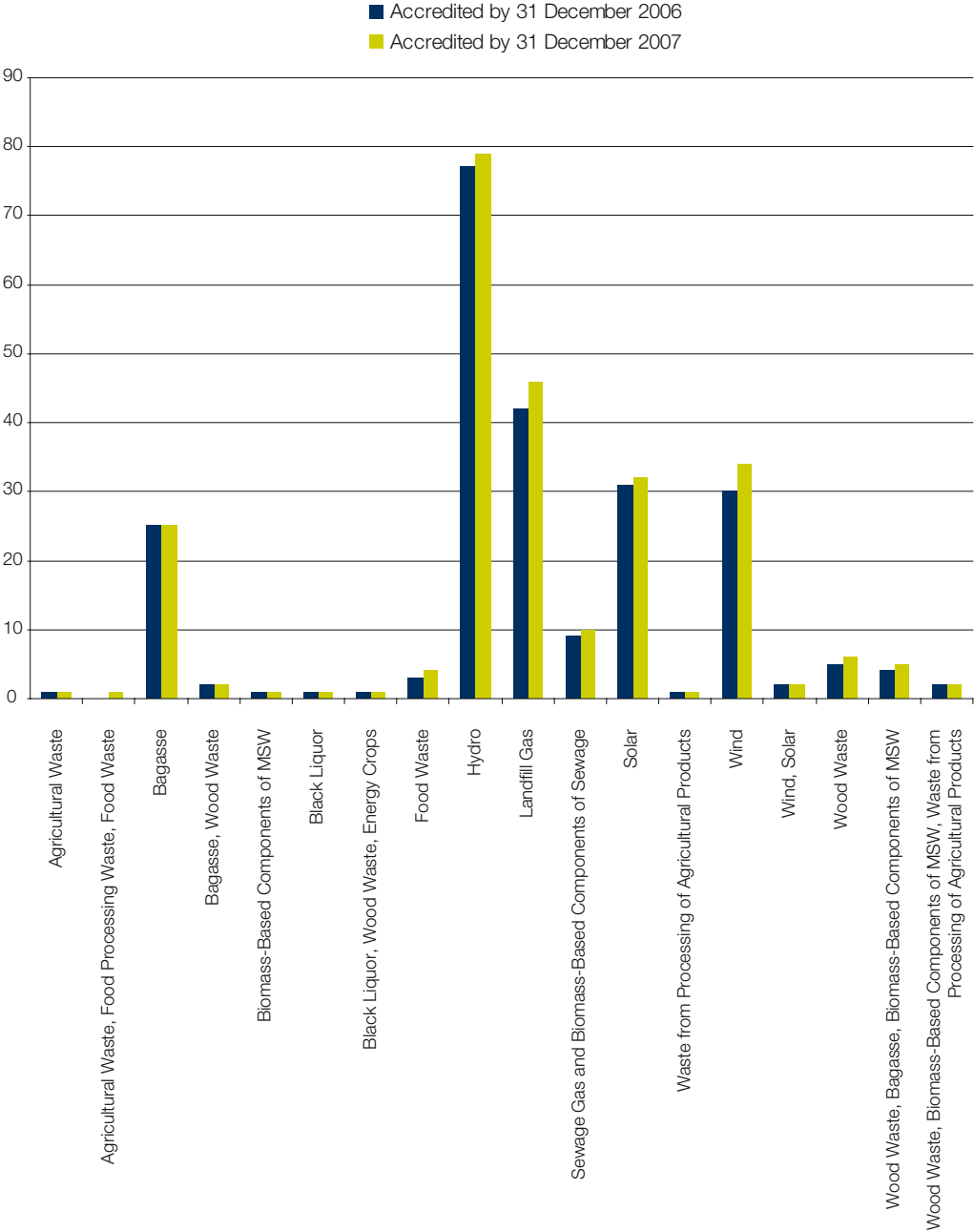


Comparative Number of Accredited Renewable Energy Power Stations

Renewable Energy Source	Accredited by 31 Dec 2006	Accredited by 31 Dec 2007
Agricultural Waste	1	1
Agricultural Waste, Food Processing Waste, Food Waste	0	1
Bagasse	25	25
Bagasse, Wood Waste	2	2
Biomass-Based Components of Municipal Solid Waste (MSW)	1	1
Black Liquor	1	1
Black Liquor, Wood Waste, Energy Crops	1	1
Food Waste	3	4
Hydro	77	79
Landfill Gas	42	46
Sewage Gas and Biomass-Based Components of Sewage	9	10
Solar	31	32
Waste from Processing of Agricultural Products	1	1
Wind	30	34
Wind, Solar	2	2
Wood Waste	5	6
Wood Waste, Bagasse, Biomass-Based Components of MSW	4	5
Wood Waste, Biomass-Based Components of MSW, Waste from Processing of Agricultural Products	2	2
Grand Total	237	253

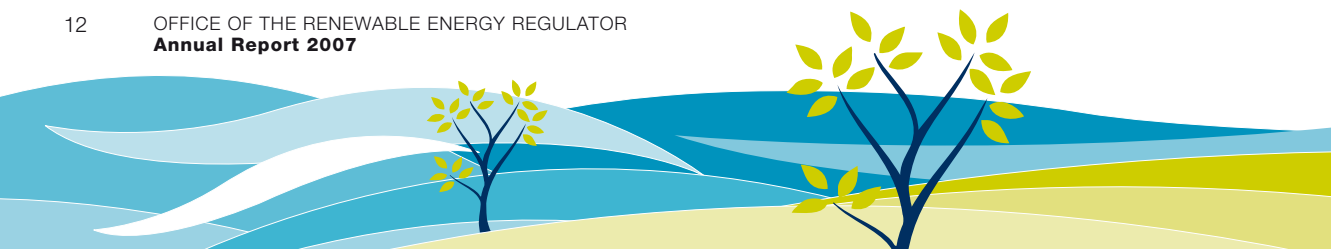


Number of Accredited Power Stations by Eligible Renewable Energy Source



Number of Accredited Renewable Energy Power Stations by State as at 31 December 2007

Renewable Energy Source	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	Total
Agricultural Waste							1		1
Agricultural Waste, Food Processing Waste, Food 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					2	4
Hydro	1	26		9		28	12	3	79
Landfill Gas	2	8	1	9	4	3	10	9	46
Sewage Gas and Biomass-Based Components of Sewage		2		4		1	2	1	10
Solar	1	11	5	4	3		4	4	32
Waste from Processing of Agricultural Products				1					1
Wind		4		2	8	4	6	10	34
Wind, Solar				1			1		2
Wood Waste		1		2	1	1		1	6
Wood Waste, Bagasse, Biomass-Based Components of MSW		4		1					5
Wood Waste, Biomass-Based Components of MSW, Waste from Processing of Agricultural Products		1					1		2
Grand Total	4	63	7	56	16	37	38	32	253



Assessing the validity of created renewable energy certificates

A total of 28,190,050 RECs had been created in the IBRS as at 31 December 2007. Of these, 6,831,012 RECs were created in the 1 January 2007 to 31 December 2007 period. In accordance with the legislation, only registered RECs created in 2001 – 2007 could be used to acquit a liable party's 2007 REC liability.

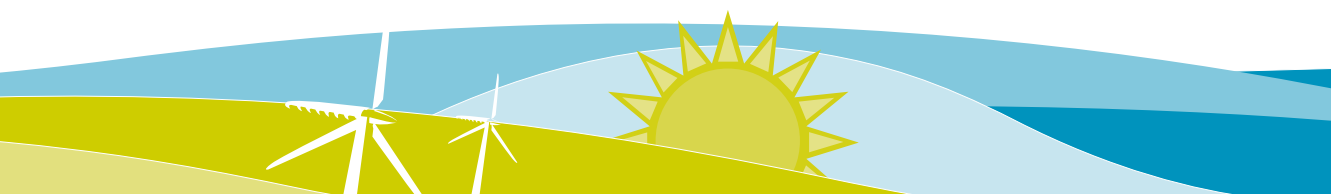
As at 31 December 2007, there were:

- 13,002,984 registered RECs;
- 350,094 RECs pending registration;
- 13,393,095 RECs accepted for surrender by the ORER against the 2001 – 2006 liability compliance periods. These RECs are marked “invalid due to surrender” in the IBRS;
- 2,751 RECs pending voluntary surrender (section 28A);
- 1,502 RECs that had been accepted for voluntary surrender. These RECs are marked “invalid due to voluntary surrender” in the IBRS; and
- 1,442,375 invalidated RECs. These RECs are marked “invalid due to audit” in the IBRS.

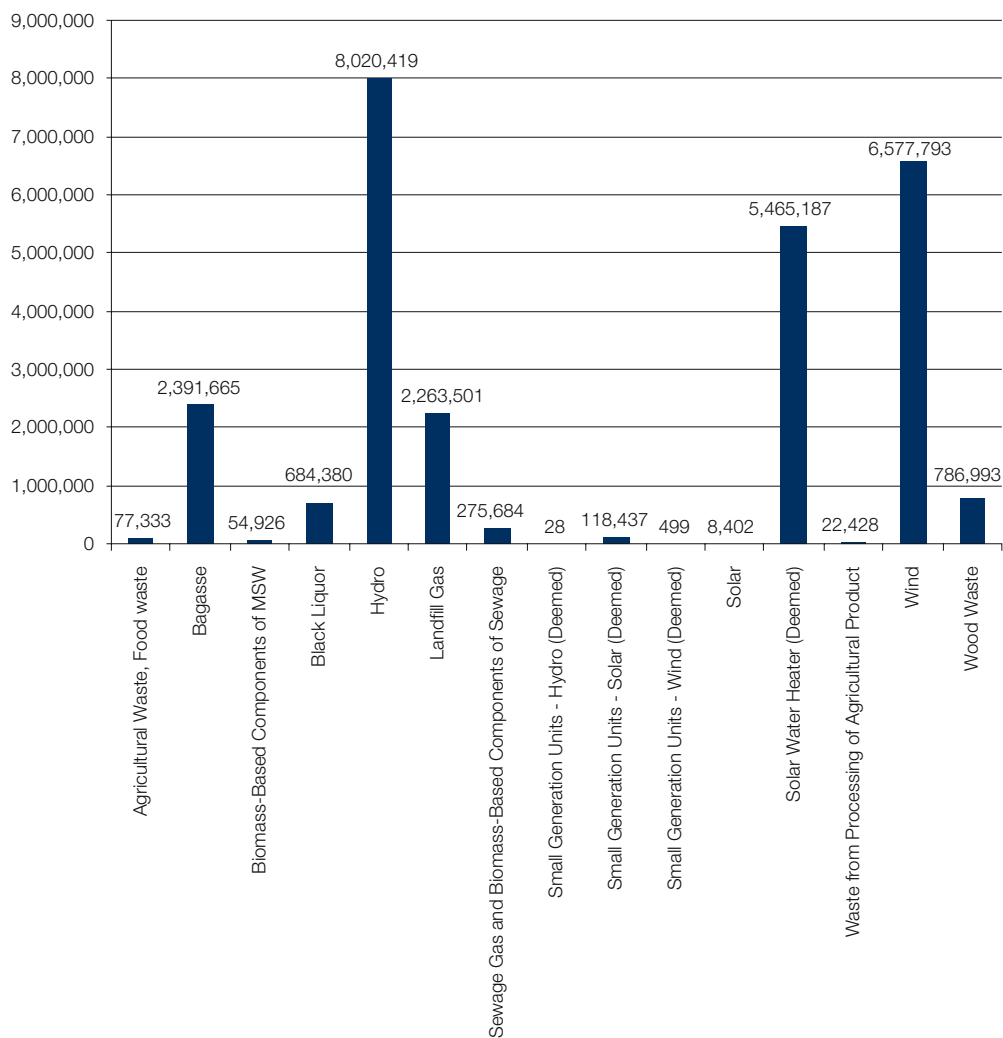
A wide range of eligible renewable energy sources were used to create RECs in 2007. Not all accredited power stations, agents or individuals created RECs in 2007.

Under section 19 of the Act, RECs may be created at any time after the generation of the final part of the electricity in relation to which it is created, and before the end of the year after the year of generation. Accredited power stations created RECs for eligible renewable electricity generated above the renewable energy power station's baseline for the 2001 to 2006 generation years by the 31 December 2007 deadline. Power stations that did not create RECs within the allowed timeframe are no longer eligible to create RECs for the eligible renewable electricity generated in the 2001 to 2006 generation years.

Under section 21 of the Act, eligible SWH installation RECs must be created within 12 months of the installation date. If agents or individuals do not create RECs within the allowed timeframe they are no longer eligible to create RECs for their SWH installation.



RECs Created by 31 December 2007 by Eligible Renewable Energy Sources¹

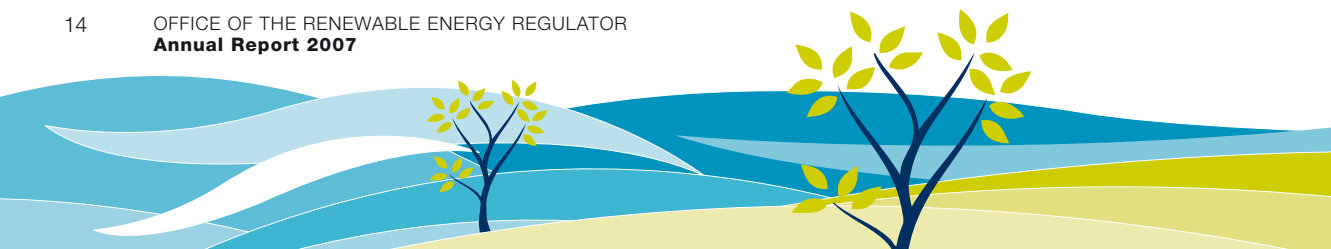


The busiest month for REC creation in 2007 was November. This reflects a number of factors:

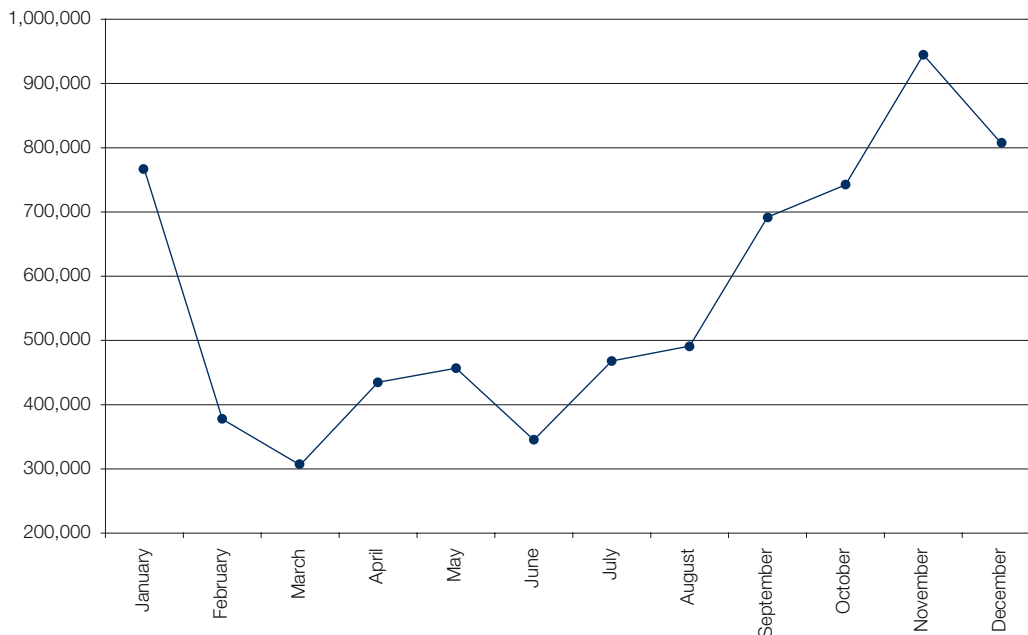
- accredited renewable energy power stations exceeding their baselines and only at that time being eligible to create RECs; and
- creating RECs for the 2001 – 2006 generation years that were not previously created, within the deadline of 31 December 2007 set by the September 2006 legislative changes to the Act.

High REC creation activity also occurred in December and January 2007.

¹ Excluding 'Invalid due to audit' RECs



RECs Created in 2007 by Month



As was the case in previous years, the ORER recommended that registered persons create their eligible RECs by 14 December 2007 in order to ensure that the RECs could be validated by the ORER through an audit process in early 2008 and be available for trading to liable parties prior to the compliance date of 14 February 2008. In 2007 there was a prompt response from registered persons to create RECs by 14 December 2007. As a result, the vast majority of the RECs created in December 2007 were registered prior to 14 January 2008.

The REC Market

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

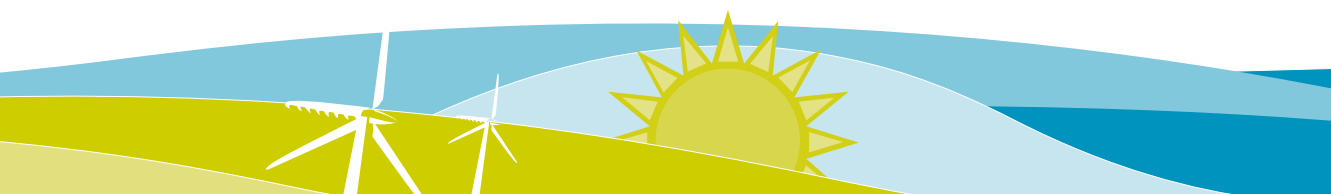
The demand for RECs is generated by liable parties that acquire electricity directly from generators or from the wholesale electricity market.

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 for eligible deemed units.

Registered RECs are the 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 are to be reported to the Regulator. REC transfer transactions are reported automatically to the Regulator in the IBRS.

A total of 5,726 REC transfer transactions took place in the IBRS as at 31 December 2007, representing a total of 40,449,914 RECs. Of these, 1,493 REC transfer transactions occurred in 2007, representing a total of 11,993,060 RECs.



As at 31 December 2007, there were:

- 5,555 accepted transactions, representing 38,991,993 RECs;
- 124 transactions cancelled by the sellers, representing 898,410 RECs;
- 42 transactions rejected by the buyers, representing 480,732 RECs; and
- 5 pending action transactions, representing 78,779 RECs.

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 may 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 is as below:

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 2007 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 2007 no requests to review a decision under this category were lodged with the ORER.

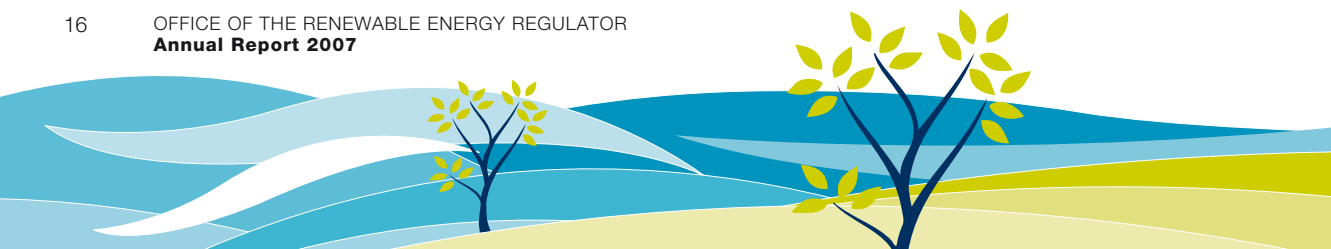
Determining certain matters relating to an application for accreditation of a renewable energy power station

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 2007 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 2007, no requests to review an accreditation decision were lodged with the ORER.

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 2007. The company then lodged an appeal for review of the power station accreditation decision before the Administrative Appeals Tribunal (AAT). This case is awaiting decision by the AAT.



Amending electricity generation returns

Under section 20A the regulator may choose to amend an electricity generation return for an accredited power station. In 2007 no requests to review a decision relating to amending electricity generation returns were 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 2007 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 2007 no registered persons were suspended and no requests to review a decision under this category were lodged with the ORER.

Approve or refuse to change 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 2007 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 2007 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 2007 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 an 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 2007 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

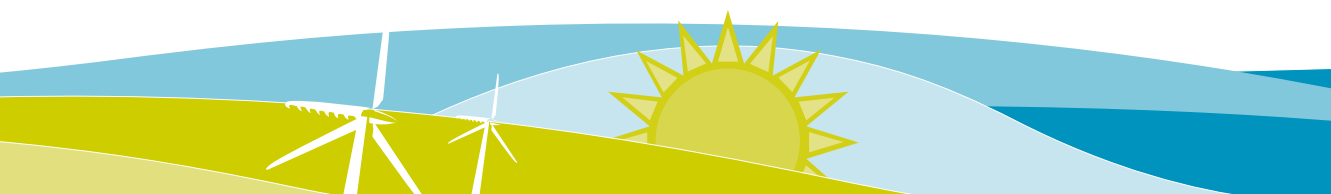
Under section 45A the Regulator may choose to amend an annual energy acquisition statement for wholesale acquisitions of electricity relating to liable parties. In 2007 no requests to review a decision under this category were lodged with the ORER.

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 2007 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 2007 year compliance period commenced on 1 January 2007 and ended on 31 December 2007. The due date for the lodgement of the EGR, SWH/SGUR, AEAS and RESS for the 2007 compliance period was 14 February 2008. Comprehensive details regarding the 2007 compliance period will be provided in the 2008 Annual Report.



The 2006 compliance period commenced on 1 January 2006 and ended on 31 December 2006. The due date for the lodgement of the EGR, SWH/SGUR, AEAS and RESS for the 2006 compliance period was 14 February 2007.

AEAS and RESS compliance and assessment

By 31 December 2007, a total of 13,393,095 RECs were accepted for surrender against the 2001 to 2006 compliance periods and banked against 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 for future compliance periods.

For the 2006 compliance period the majority of the AEAS were submitted to the ORER by

14 February 2007, the due date. A total of 65 parties were identified and were required to surrender RECs.

For the 2006 compliance period, only 3 out of the 65 liable parties had individual shortfalls. The 2006 shortfall was effectively 15,057 RECs. As on 31 December 2007 more than 99.7 percent of the 2006 liability was met by the surrender of RECs.

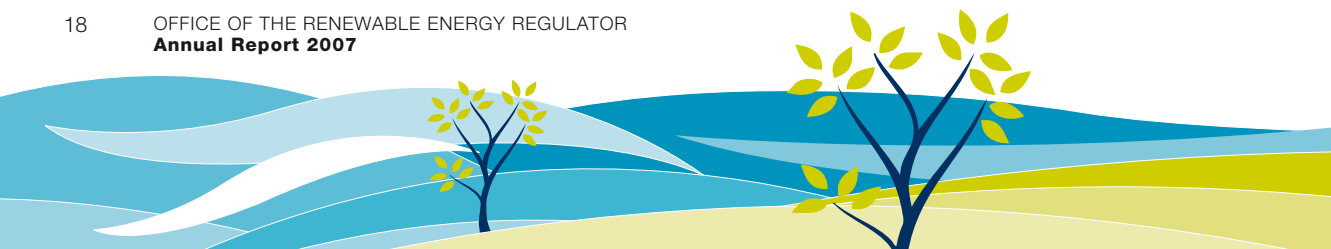
In addition to addressing 2006 liabilities, liable parties are permitted by the Act to provide RECs to redeem any outstanding shortfall charges in the immediate three years following the shortfall year. During the 2006 compliance period assessment, REC shortfalls were reviewed for 2003 – 2005.

By 31 December 2007, the number of liable parties with a REC shortfall for the 2001 – 2005 compliance periods was 7. At the end of 2007, the 2001 – 2005 total REC shortfall was 8,851 RECs.

REC Surrender Summary for the 2006 Compliance Period as at 31 December 2007

Total RECs surrendered against 2006 liability	4,313,354
Total RECs surrendered against 2001 - 2005 liability	9,026,083
Total RECs surrendered against future liability	53,658
Total RECs surrender	13,393,095
2006 Liability acquitted by RECs Surrender (%)	99.7
Parties with a 2006 liability	65
Parties with a 2006 shortfall	3
Parties with a 2001 - 2005 shortfall	7
Total REC shortfall for 2006	15,057
Total REC shortfall for 2001 - 2005	8,851

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 2006 compliance period (or generation year) are required to lodge an EGR by 14 February 2007 for each accredited renewable energy power station.

By 31 December 2007 a total of 235 EGRs were received for the 2006 generation year. Assessment of the EGRs continued throughout the 2007 calendar year until all completed EGRs that were received by the OREER were assessed and confirmation of the assessment was provided to the relevant company contact.

SWH/SGUR compliance and assessment

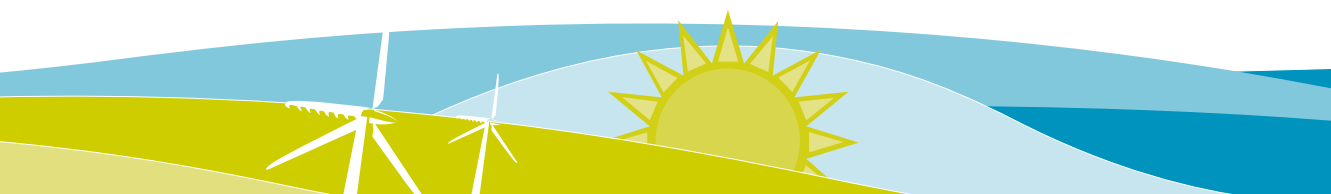
Registered persons that created RECs for eligible deemed unit installations during the 2006 compliance period (or generation year) were required to lodge an SWH/SGUR by 14 February 2007.

By 31 December 2007 a total of 30 SWH/SGURs were received for the 2006 compliance period. Assessment of the SWH/SGURs continued throughout the 2007 calendar year until all SWH/SGURs were assessed and confirmation of the assessment was provided to the relevant company contact.

Summary of EGR and SWH/SGUR compliance and assessment

EGRs and SWH/SGURs assessments for 2001 – 2006 generation years were analysed and the number of RECs that remain uncreated are provided in the table on the following page, 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 cannot be created for eligible generation from accredited renewable energy power stations because nominated persons did not create the RECs by 31 December 2007 as stipulated under section 19 of the Act.



Comparing REC Eligibility and Registered RECs by Generation Years to View RECs Remaining

Category	2001 ⁽²⁾	2002	2003	2004	2005	2006
	'000	'000	'000	'000	'000	'000
REC Eligibility ⁽¹⁾						
Deemed Units	216	528	712	822	1,010	1,048
Renewable Energy Power Stations	1,448	2,253	3,644	2,582	3,811	4,144
Total	1,664	2,781	4,356	3,404	4,821	5,192
Registered RECs						
Deemed Units	216	528	712	822	1,010	1,048
Renewable Energy Power Stations	1,436	2,252	3,644	2,582	3,811	4,144
Total	1,652	2,780	4,356	3,404	4,821	5,192
RECs Remaining						
Deemed Units ⁽³⁾						
Power Stations ⁽⁴⁾	12	1	0	0	0	0

¹ One megawatt hour 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 or additional information is received by the ORER. For example at the conclusion of an audit. However, under section 19 of the Act nominated persons are no longer eligible to create RECs in respect of the 2001 - 2006 generation years after 31 December 2007.

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 or SWH/SGUR.

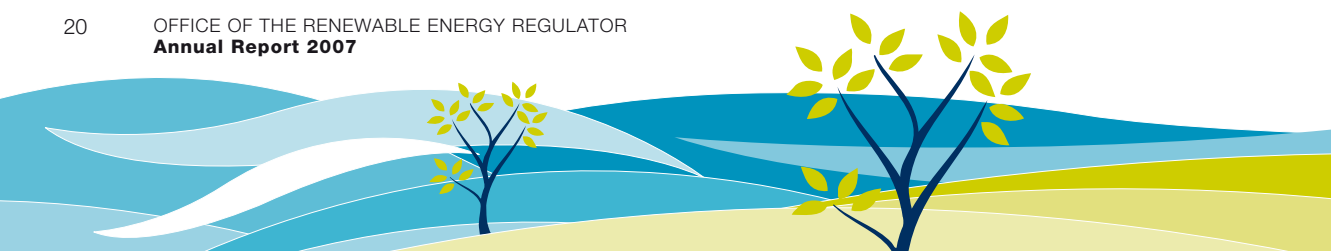
Audits not only help liable and eligible parties understand the application of the RET to their circumstances, but also provide feedback to the ORER on areas where systems might need some improvement.

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 2007 the ORER initiated five field audits and one desk audit for liable parties. All five field audits related to the 2006 compliance period liability. The desk audit relates to the 2006 and potentially previous compliance periods. The audits were performed to substantiate information provided to the ORER, and to determine compliance with the Act.

The field audits confirmed that all audited liable parties were reporting consistently and in accordance with the legislation, however, a small percentage of audited liable parties were found lacking in having proper internal procedures to report relevant acquisitions consistently. The audits advised such liable parties to improve their internal procedure to ensure consistent reporting of their REC liability.



Chapter 3

OTHER ACTIVITIES

Amending the Act

The ORER continues to work with the Department of Climate Change, which incorporates the former Australian Greenhouse Office policy responsibility for RET, to identify issues and remedies in respect of a variety of administrative matters related to the RET.

In 2003 a review to assess the efficiency and effectiveness of the RET, 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, an Amendment Bill was introduced 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 Assent on 30 June 2006. The Amendment Act was compiled into the Act and came into force on 11 September 2006.

Amending the Regulations

The Regulations, which were first made on 6 February 2001 and were amended three times during 2007. This was in addition to the sixteen amendments until 31 December 2006.

The *Legislative Instruments Act 2003* allows proposed regulation amendments that are of a minor or machinery nature and that do not substantially alter existing arrangements to be exempt from a public consultation process.

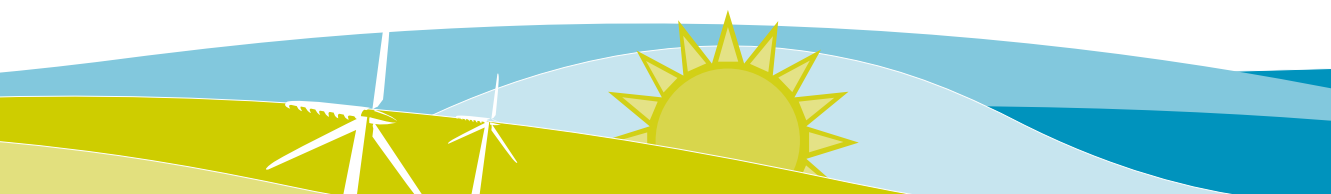
Amendment rounds Seventeen, Eighteen and Nineteen were minor and machinery in nature and were not provided for public consultation prior to the amendments.

Details of the amendment rounds that commenced in 2007 are provided in the table on the following page.

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 (round seventeen);
- specifying the renewable power percentage for 2008 (round eighteen)¹; and
- consequential amendments that were required to be implemented as a result of the Amendment Act (round nineteen).

¹ The Renewable Power Percentage for 2008 is 3.14%. It was 2.7% for 2007. Previous Renewable Power Percentages that have been set for previous compliance years can be obtained from Regulation 23 of the Regulations.



Regulation Amendments in 2007

Activity	Round Seventeen	Round Eighteen	Round Nineteen*
Federal Executive Council meeting	19 July 2007	26 Sep 2007	4 October 2007
Amendment regulations registered	24 July 2007	28 Sep 2007	5 Oct 2007 and 5 Nov 2007
Amendment regulations tabled in the House of Representatives	7 Aug 2007	12 Feb 2008	12 Feb 2008
Amendment regulations tabled in the Senate	7 Aug 2007	12 Feb 2008	12 Feb 2008

Note: See previous years' Annual Reports for details of rounds one to sixteen.

*The former Australian Greenhouse Office conducted this amendment round, which required two regulation amendment commencement dates.

Internet based registry system (IBRS)

The Act requires the Regulator to maintain four registers by electronic means. An 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 to AusRegistry International Pty Ltd of the contract to develop and run the IBRS software through to 31 July 2010.

One scheduled upgrade to the software was released in 2007. Version 1.3, which was released on 6 September 2007, included several changes which stem from the Amendment Act. The most notable of these changes was the addition of new functionality to allow registered owners to surrender RECs under section 28A of the Act.

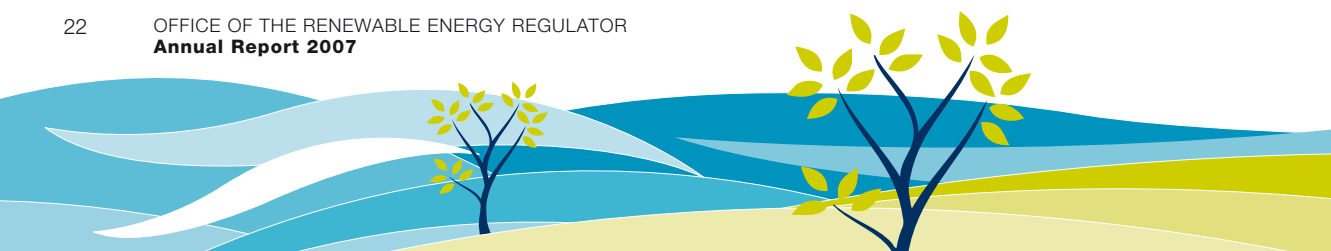
Advice to industry

The OREER placed a number of public notices in 2007 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 OREER website, www.orer.gov.au, to advise the participants of the framework and processes for participating in the RET. Information is also sent directly to all IBRS users via email on a number of occasions.

Working with industry

The OREER 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.



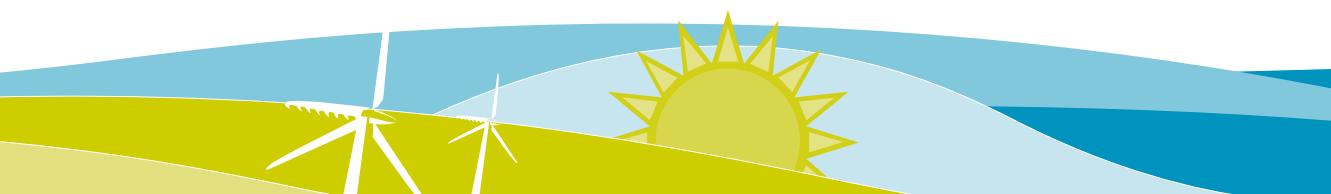
In 2007, the ORER continued the positive interaction with the participants to ensure all parties were familiar with their obligations and entitlements under the legislation. The ORER continued to provide telephone/email assistance and visited, or was visited by, many stakeholders and interested parties. The ORER also presented at several public fora. This extensive contact and feedback enables the 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 Department of Climate Change and the Department of the Environment, Water, Heritage and the Arts. 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, Victorian Renewable Energy Target and Sustainable Energy Development Office.

Working with community

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



Glossary

AAT

Administrative Appeals Tribunal

Accreditation

A process of determining if a power station is eligible to participate in the RET 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

Baseline

A baseline is 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 period

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

Deemed unit

A solar water heater or small generation unit installation that is eligible for REC creation.

The eligibility requirements for deemed units are 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 for deemed units.

IBRS

Internet based registry system, which is also referred to as the REC Registry.

Website www.rec-registry.gov.au

kW

Kilowatt— one thousand watts

kWh

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

Liability

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

Liabe Parties

Parties that make wholesale acquisitions of electricity

Minister

Minister for Climate Change and Water

MWh

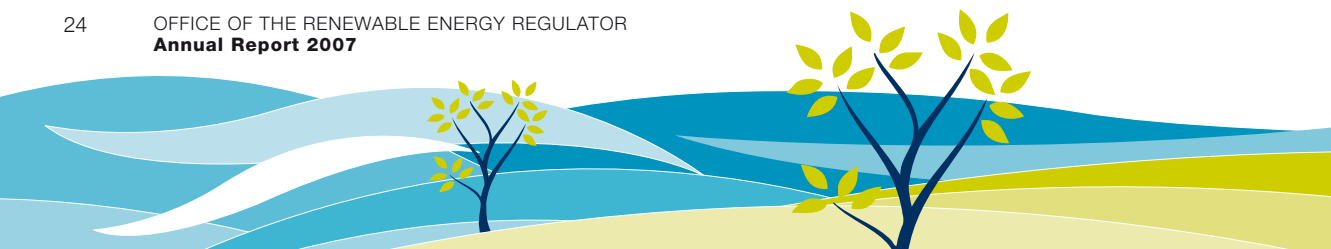
Megawatt-hour—a measure of electricity generation or use. One thousand kilowatt-hours

ORER

The Office of the Renewable Energy Regulator

Nominated person

A nominated person is able to apply for accreditation of a power station under the Act. The nominated person can be the owner, operator or a 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 been generated. RECs may be traded separately from the physical electricity

RET

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

Registered person

A person registered under section 11 of the Act and listed in the register of registered persons. Only registered persons are able to create RECs

Regulator

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

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 create RECs as a deemed unit under the Regulations. Solar water heaters that are eligible to create RECs are listed in the Register of Solar Water Heaters.

SWH/SGUR

Solar water heater and small generation unit return

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

Voluntary REC surrender

Section 28A allows a registered owner to offer RECs for surrender for any reason other than to comply with mandatory liability under section 44 or 95. A REC that is accepted for surrender under section 28A is permanently removed from the REC market

