



## FACT SHEET

# MANDATORY RENEWABLE ENERGY TARGET OVERVIEW

Version 2 as Updated in February 2008

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### Background

The Mandatory Renewable Energy Target (MRET) is a key element of a broader government response to climate change and to reduce greenhouse gas emissions. The MRET is one of more than 80 measures that the government has established to combat climate change. The MRET has been introduced to encourage the development of a more sustainable renewable energy supply industry. It will also achieve reductions in greenhouse gas emissions.

The Office of the Renewable Energy Regulator (ORER), which is a statutory agency in the Department of Climate Change which is part of the Prime Minister and Cabinet portfolio, administers the *Renewable Energy (Electricity) Act 2000* (the Act), the *Renewable Energy (Electricity) Charge 2000* and the *Renewable Energy (Electricity) Regulations 2001* (the Regulations) to increase renewable electricity generation from Australia's renewable energy sources by encouraging the generation of an additional 9,500 GWh of renewable energy per year by 2010.

MRET applies nationally, with the majority of electricity retailers and wholesale electricity buyers on liable grids exceeding 100 megawatt (MW) in all States and Territories contributing proportionately to increase Australia's renewable energy sources.

### Operation of MRET

MRET operates by imposing a legal liability to support renewable energy electricity generation on, generally, large wholesale purchasers of electricity. An example of a liable party under the legislation would be an electricity retailer acquiring wholesale

electricity to meet retail sale obligations to customers (acquisition of electricity). The liable parties are directly responsible for supporting an increase in the amount of electricity generated from renewable energy sources, which is implemented through the surrender of renewable energy certificates (RECs) in proportion to their acquisitions of electricity. Each REC represents one megawatt hour (MWh) of eligible renewable electricity.

### **Interim Target Levels**

Interim annual targets have been set to ensure that there will be a consistent progress towards achieving the 9,500 Giga Watt hour (GWh) target by 2010 and that all of the investment does not occur in the final years of the scheme. Annual targets set in Section 40 of the Act are enforceable and apply to calendar years up to and including 2020. Uniquely for the start up year of 2001 the target applied for the period 1 April to 31 December.

The interim targets are set up to 2010 at which point the 9,500 GWh annual target remains constant until 2020, when the MRET ends.

For liable parties to meet their proportion of the interim targets they need to know their total amount of liable purchases of electricity (relevant acquisitions). The total liable purchases are multiplied by the Renewable Power Percentage (RPP). The RPP is specified in the Regulations for each year and is used for determining the number of RECs which must be surrendered by the liable party each compliance year to discharge their liability under the Act. For example the RPP for 2006 is 2.17%.

As the MRET ends in 2020 liabilities will not be incurred for electricity purchased on or after 1 January 2021.

For more information about the RPP you can visit the Renewable Power Percentage page of the ORER website.

### **Liable Parties**

Liable parties are required to either pay the shortfall charge for each megawatt hour of liability for renewable energy or acquire and surrender RECs. The RECs can be acquired from eligible renewable energy power stations and other eligible renewables or REC sellers.

Liabe parties can only surrender RECs for which they are the registered owner. A publicly accessible internet based registry system, known as the REC registry, is established to support this requirement. The REC registry supports the creation, registration, validation, transfer and surrender of RECs.

If a liable party does not discharge their liability by surrendering RECs then the Renewable Energy Shortfall Charge (penalty) of \$40 per REC applies. Penalties can be redeemed if the appropriate number of RECs are surrendered within the next three years of the penalty being paid and there are sufficient RECs offered for surrender against the compliance year being assessed.

A leeway of up to 10% will be allowed for a liable party to meet their proportion of the interim target. Where a shortfall is outside the 10% leeway, the whole shortfall will incur the penalty. However, the whole shortfall (including the 10% leeway) will need to be made up over the next three years for the penalty to be fully redeemed. Shortfalls occurring within the final three years of the scheme (2018-2020) will need to be made up prior to the measure ceasing for the penalty to be redeemed.

## **Eligible Renewable Energy**

There are two different ways for renewable energy to be eligible under the Act.

1. Renewable energy power stations, once accredited, can create RECs from generation in excess of the power station's 1997 generation baseline level. (For more information about Power Station's, the accreditation process and eligible renewable energy sources such as wind and hydro you can visit the power station page of the ORER website); or
2. Deemed output systems, which when installed in a given geographic area are deemed to be able to produce a defined amount of electricity for the purposes of the Act.

Deemed output systems include:

- eligible solar water heaters (SWHs) as listed in the Regulations. The amount of eligible RECs for SWH models varies as individual SWH models are tested to determine the amount of electricity that they displace and are listed in the

Regulations with a deemed REC value. (For more information about eligible SWHs you can visit the Householders page of the ORER website); and

- small generation units (SGUs), such as photovoltaic systems, mini electric hydro systems and small wind systems. The amount of eligible RECs for SGUs varies depending on the size of the SGU and the amount of time that the SGU is deemed to generate electricity. (For more information about SGUs you can visit the Householders page of the ORER website)

Owners of deemed systems are eligible for RECs by directly creating their RECs or assigning their right to create RECs to an agent once.

Agents, who must be registered under the Act, can create RECs from individuals who have assigned their right to create RECs to the registered agent from their deemed output systems. (For more information about agents you can visit the Agents page of the ORER website)

## **Renewable Energy Certificates**

Each REC is equivalent to 1 MWh of renewable energy generation available at an agreed measurement point. RECs that have been created and registered in the REC registry can be traded. The transfer of RECs occurs in the REC registry and a full history of the ownership of the REC at any time is recorded in the REC registry. This information is publicly accessible.

## **Annual Reporting**

The ORER produces two annual reports. The first report is the Financial Annual Report, which provides information about the ORER's performance and financial statements. The second report is the Annual Report, which is an administrative report completed for a calendar year and provides various information about the administration of the MRET including the number of RECs that have been created, registered and surrendered. Copies of the Financial Annual Reports and calendar Annual Reports are available from the Publication page of the ORER website.

## **Role of Regulator**

A Regulator is appointed to ensure that the requirements of the MRET are met, including enforcing the legislation through imposing penalties and conducting audits. (For more information about the Regulator you can visit the Renewable Energy Regulator page of the ORER's website)

## **MRET Review Processes**

A review to assess the efficiency and effectiveness of the MRET, and its implementation and operation of the Act was conducted during the third year of operation of the MRET. The review was conducted by a panel independent of the Government. The review assessed various issues associated with the MRET and its legislation.

As part of the Australian Government's response to the review panel an Amendment Bill was introduced into the parliament in 2006. It is expected that these changes will take effect during 2006. For more information you can visit the Australian Greenhouse Office website at <http://www.greenhouse.gov.au/markets/mret/index.html>.

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For further information you can:

- visit the ORER website ([www.orer.gov.au](http://www.orer.gov.au));
- contact the ORER by email on [orer@orer.gov.au](mailto:orer@orer.gov.au)
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