

Emissions trading bulletin

A guide to the Climate Change (Emissions Trading and Renewable Preference) Bill as reported back to Parliament by the Finance and Expenditure Committee: *Renewable Preference*

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The Climate Change (Emissions Trading and Renewable Preference) Bill has now been reported back to Parliament by the Finance and Expenditure Committee.

This bulletin explains the main changes to the renewable preference part of the Bill since it was first tabled in Parliament on 4 December 2007.

Renewable Preference

Part 2 of the Bill inserts a new Part 6A into the Electricity Act 1992. Part 2 of the Bill is commonly referred to as the 'renewable preference'.

The purpose of the renewable preference is to restrict baseload fossil fuel generation for a period of 10 years during the establishment of the Emissions Trading Scheme (ETS) so as to provide greater assurance on the ability to achieve the 90 per cent Renewable Energy Target established by the government.

Part 2 of the Bill implements a ban on all new fossil-fuelled thermal generation, or specified plant that is above 10 MW that uses more than 20 per cent fossil fuel, unless a specific exemption is obtained for the connection of the plant. This is not a total ban on fossil-fuelled thermal generation as it is recognised that the intermittent nature of wind and hydro (our primary sources of renewable generation) requires supplemental or standby generation to be available when renewable generation is not.

Commencement

Part 2 of the Bill as reported back will commence on a date specified in a commencement Order in Council made after Royal Assent. While Part 2 could be brought into force immediately upon assent, if this was without regulations also being made for the various purposes specified in the Part (such as the process for obtaining an exemption), it would mean that restrictions on specified plant would apply from the date of commencement, but exemptions from the restrictions could not be granted. In order to allow for

sufficient consultation, realistically the regulations are unlikely to be made until late 2008. Accordingly, late 2008 is the earliest likely commencement date.

Changes

Current technology means that the most likely form of this type of standby generation support is fast start diesel or gas fired open cycle plant. Accordingly, Part 2 provides the ability to exempt specified plant that has prescribed load factor, and emissions characteristics. Changes have been made to add start-up time as an additional criterion to be prescribed in regulations.

The definition of specified plant has been revised to exclude plant operating under a reserve contract with the Electricity Commission from requiring an exemption to ensure that the Commission's management of the security of supply is not compromised by the renewable preference.

Also to address security of supply, the exemption category for emergencies is amended to clarify that it is intended as a contingency for potential future emergency, and is not intended as an application provision for a current emergency. To address unforeseen short term emergencies a new provision has been added that allows the Electricity Commission to grant temporary (3 month) emergency exemptions.

The provisions on granting exemptions have been improved by clarifying that the Minister of Energy when approving or revoking an exemption must be acting on the recommendation of the Electricity Commission, and that the Minister of Energy may not materially alter any terms and conditions that have been recommended for an exemption by the Electricity Commission.

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